



HOW INDIA **BORROWS**

DECEMBER 2023

TRACKING THE **BORROWING BEHAVIOUR** OF CONSUMERS FOR THE 5TH YEAR IN A ROW



An Insights Report by **Home Credit India Finance Pvt. Ltd.**



PREFACE

ABOUT HOME CREDIT INDIA

Home Credit India Finance Pvt. Ltd. is a pioneering force in the world of consumer finance lending. As a leading Non-Banking Financial Company (NBFC), Home Credit India has redefined the landscape of credit penetration and financial inclusion since its entry into the Indian market in 2012.

Our vision at Home Credit India is to provide financial solutions that are not only simple and transparent but also accessible to all. With a resolute commitment to empowering our customers, our responsible lending model has transformed the lives of millions of people across India. The company is committed to drive credit penetration and financial inclusion by offering wide financial solutions that are simple, transparent, trustworthy and accessible to all.

Home Credit India has an employee base of over **5,000** and has been consistently expanding operations since its entry in 2012, with its operations spread over **625 cities** across India. The company has a strong network of around **53,000 points-of-sale (POS/Partner Shops)** and is growing with a customer base of **1.6 CR+**, driven by Pan-India expansion across major markets, a range of diversified and innovative products backed by superior customer experience.

5000
EMPLOYEES

 **53K+**
PARTNER
SHOPS


TRUSTED BY
1.6 CR +
CUSTOMERS

PRESENCE IN
625
CITIES

SERVING
INDIA
SINCE 2012



MESSAGE FROM CMO



In the dynamic landscape of consumer credit in India, our recent study, **How India Borrows**, unfolds a compelling narrative of digital evolution fueled by the vibrant Gen Z and Millennials in Tier 1 & 2 cities. As the Chief Marketing Officer of Home Credit India, I am thrilled to share the key insights from this study.

The standout revelation is the swift adoption of POS finance, particularly the surge in popularity of EMI financing, 50% of the borrowers prefer to take loans through EMI Cards. The study reflects that the borrowing trend has shifted from running households to buying consumer durables such as smartphones and home appliances (44 per cent in 2023). The new generation of consumers, driven by aspirations is embracing loans, resulting into growing acceptance of the digitalization of financial services, over one-fourth of borrowers opted for online channels for availing loans. Borrowers are leveraging digital tools and platforms for seamless access to affordable and convenient credit and this trend is expected to grow further.

In our pursuit of empowering consumers, we recognize the significance of financial literacy. As revealed by our research, there is a strong desire among the majority to enhance their understanding of financial management. This insight propels us to craft a meaningful financial literacy program tailored to our consumer's needs.

The survey not only highlights the preferences of today's borrowers but also emphasizes the need for greater awareness of data privacy. As we navigate this digital era, Home Credit India remains committed to providing transparent, trustworthy and accessible financial solutions, ensuring a responsible and inclusive financial future for all.

Thank you for being a part of our journey towards a financially literate and inclusive India.



Happy Reading,
Ashish Tiwari
Chief Marketing Officer
Home Credit India



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REPORT COVERAGE

For the past five years, Home Credit India has embarked on a journey to understand the evolving borrowing habits of lower middle-class consumers in India. This comprehensive survey, spanning 17 major cities and encompassing over 1800 borrowers, delves deep into the financial lives of individuals aged 18 to 55 years across diverse income groups and professions. The unique aspect of this study lies in its focus on active loan users, individuals who have recently obtained and are currently repaying loans. This allows for a granular understanding of their borrowing preferences, financial literacy, evolving digital adoption, and awareness of data privacy guidelines.



Objectives and Significance

The primary objective of this study is twofold



Understanding the borrowing landscape and charting the shift in consumer behaviour

- Borrowing habits of lower middle-class consumers in India
- Impact of changes on the borrowing behavior of this segment and identify any significant shift in last few years



Digital Adoption and Data Privacy: To assess the comfort level and familiarity of borrowers in completing financial transactions on digital platforms and explore their concerns regarding data privacy.

Understanding the borrowing habits of lower middle-class consumers is crucial for several reasons, as this segment constitutes a significant portion of the Indian population and plays a vital role in driving economic growth.





Key Findings and Insights

The survey reveals several key findings and insights into the borrowing habits of lower middle-class borrowers in India



Loan Types and Motivations: The most common loan types among this segment include consumer durable loans, and personal loans that fulfils immediate wants and starting (or expanding) a business.



Increased Digital Adoption: The survey highlights a significant rise in the adoption of digital platforms for loan applications and repayments, especially among young borrowers in urban areas.



Data Privacy Concerns: While acknowledging the convenience of digital platforms, borrowers express concerns regarding data privacy and security, this highlights the need for robust data protection measures and transparency from financial institutions.



Financial Literacy Gaps: The survey identifies significant gaps in financial literacy among lower middle-class consumers. This underscores the need for targeted financial literacy initiatives to empower individuals to make informed financial decisions.



Recent Shifts and Trends



The COVID-19 pandemic followed by the accelerated digital penetration and preferences, significantly impacted the borrowing behavior of lower middle-class consumers. The study reveals a shift in borrowing behavior, from only essentials to aspirations and day-to-day needs / wants.



Accelerated usage and adoption of digital platforms for financial transactions, as individuals seek contactless and convenient options.



Future Implications and Recommendations

The findings of this survey hold significant implications for various stakeholders in the financial ecosystem



Financial Institutions: To develop more inclusive and accessible financial products tailored to the needs of lower middle-class consumers.



Fintech Companies: To focus on building trust and ensuring data privacy while offering innovative and user-friendly financial solutions.



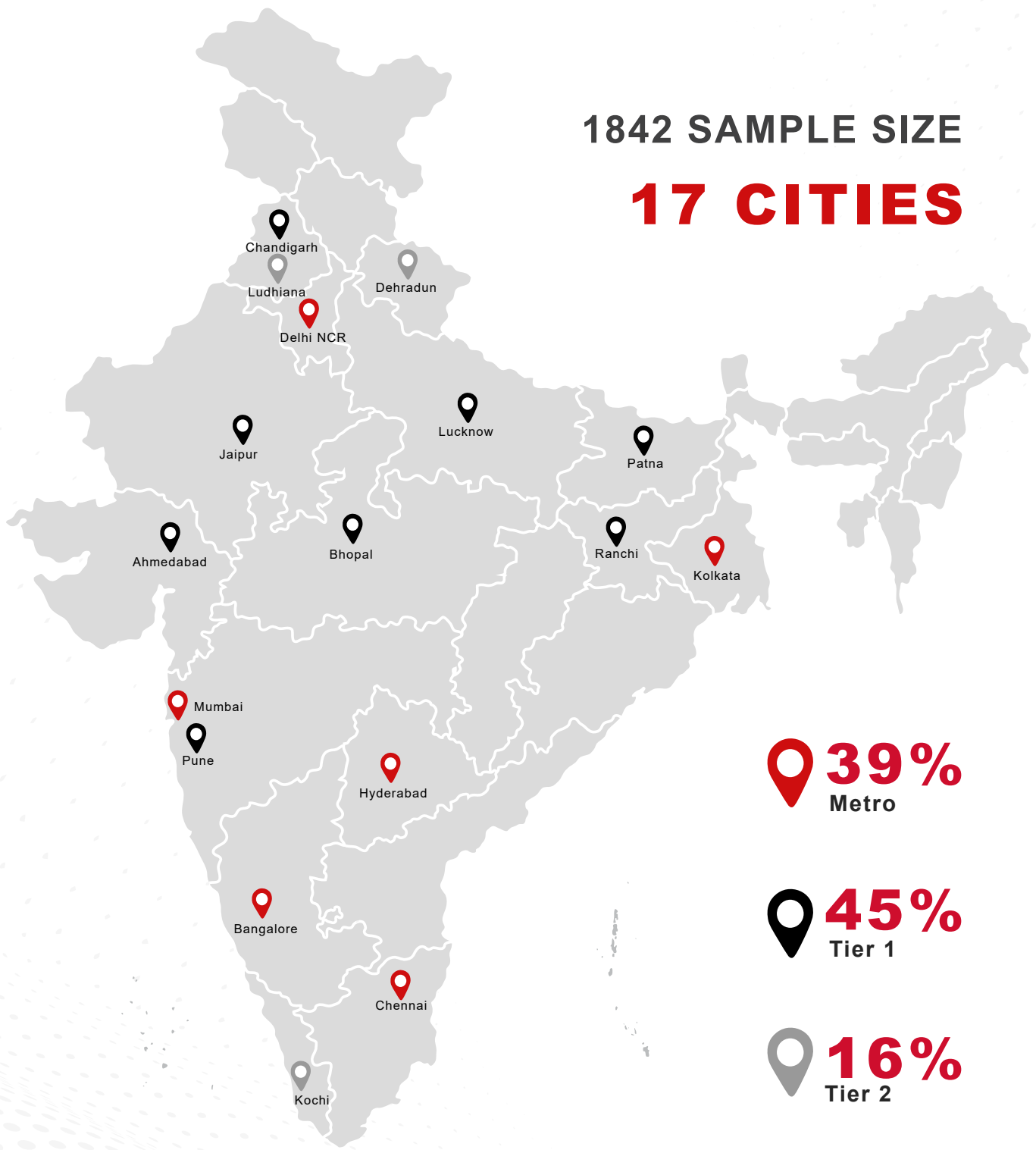
Policy Makers: To invest in financial literacy initiatives and create an enabling environment for financial inclusion.

By addressing these recommendations, we can move towards a more inclusive financial system that empowers lower middle-class consumers and promotes financial well-being across India.

DETAILS ABOUT SURVEY RESPONDENTS

1842 SAMPLE SIZE

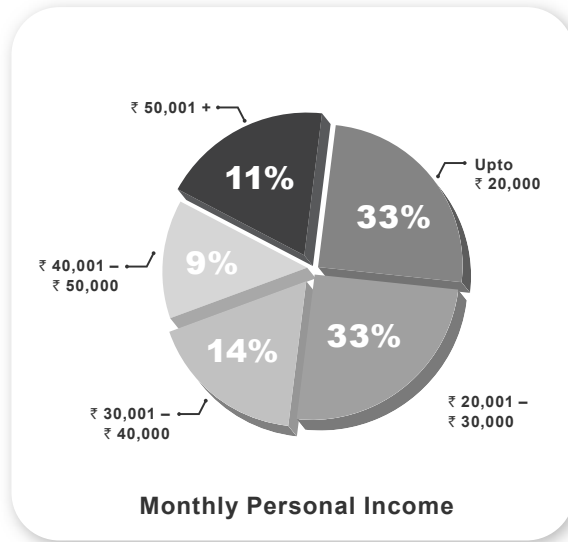
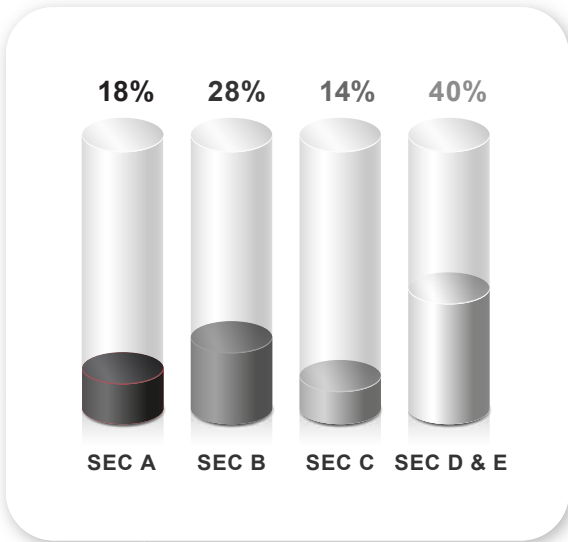
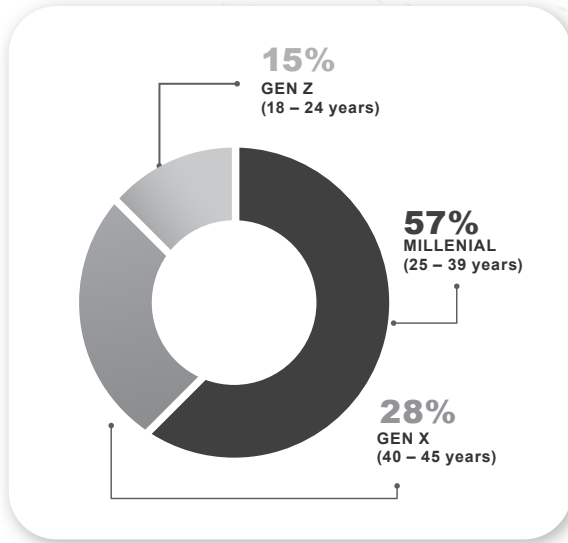
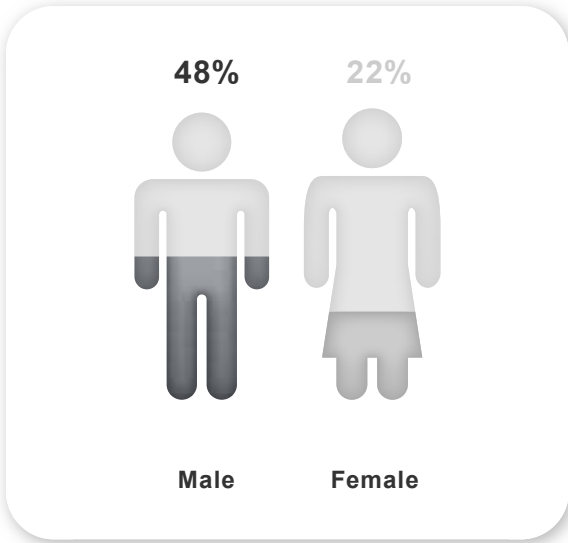
17 CITIES



39%
Metro

45%
Tier 1

16%
Tier 2



CONSUMER BORROWING BEHAVIOUR

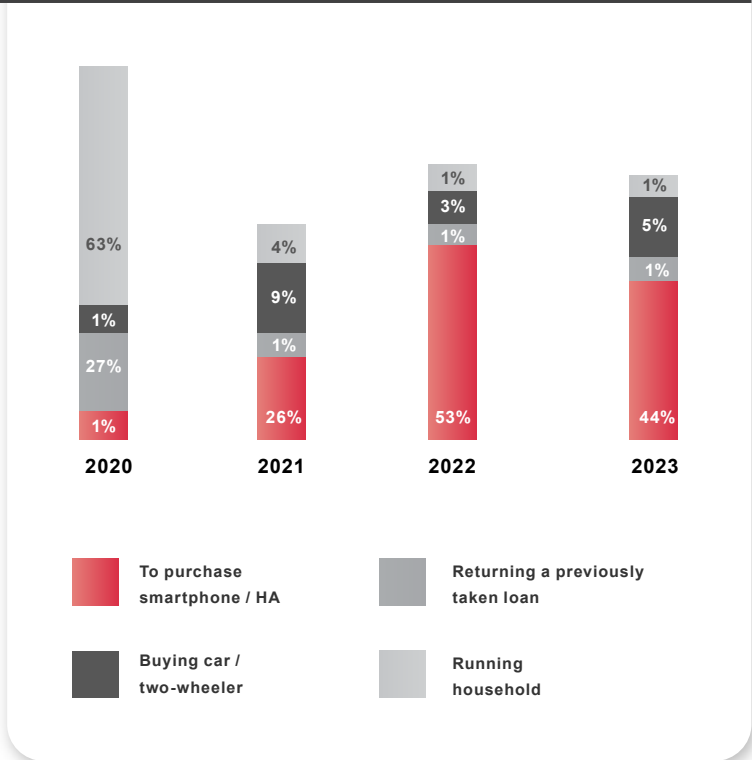
The lower middle class, the backbone of any nation, faces a unique set of financial challenges. Their limited income, frequent job instability, and rising cost of living create a precarious balancing act. Unexpected expenses and limited savings further exacerbate the situation, forcing them to rely on loans to navigate the ever-changing financial landscape.



From Survival to Aspiration: A Changing Credit Landscape

In the recent past, the motivations for borrowing within this demographic have undergone a significant shift. Four years ago, the economic upheaval triggered by the COVID-19 pandemic resulted in widespread job losses, pushing the lower middle class towards borrowing, primarily to meet their basic household errands (63% in 2020). Repayment of existing debt also emerged as a significant reason for borrowing during this period (27% in 2020).

With the gradual restoration of economic stability and a return to normalcy, the borrowing patterns within this segment have shifted from necessities to aspirational discretionary purchases. Consumer durables (44%) and vehicles (5%) now occupy the top spot, with a staggering 50% of borrowers seeking loans for these purposes. Interestingly, despite a slight decline in 2023, loans for acquiring consumer durables have maintained their dominant position for three consecutive years.

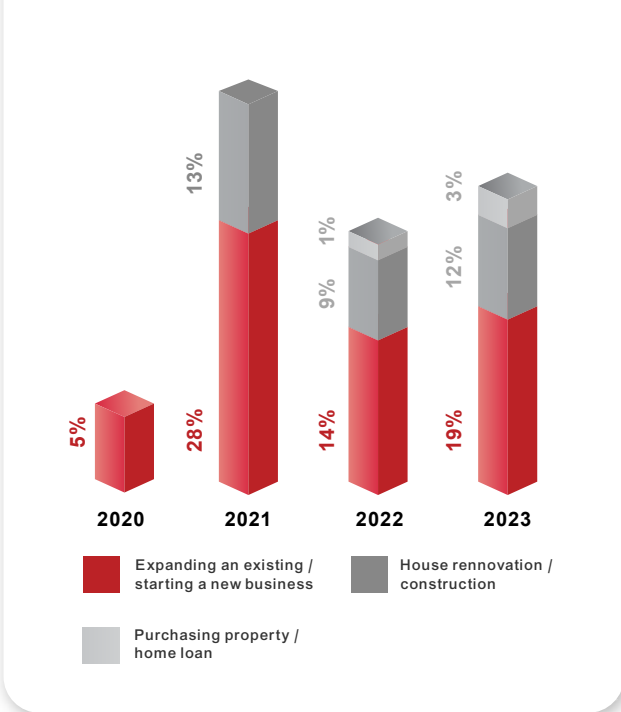




Beyond the Essentials: Seeking Security and Growth

While consumer durables may hold the top spot, consumers also demonstrate a strong desire for security and growth. In line with Maslow's hierarchy of needs, the urge for a stable income and a permanent residence remains paramount. This yearning has led to a significant increase in borrowing for housing (+5%) and business set-up or expansion (+5%).

The lower middle class is not just focused on immediate needs but also investing in the future. Aspiring consumers are increasingly seeking loans for their children's education (4%) and better healthcare facilities (3%). These choices highlight their commitment to securing a better tomorrow for their families.



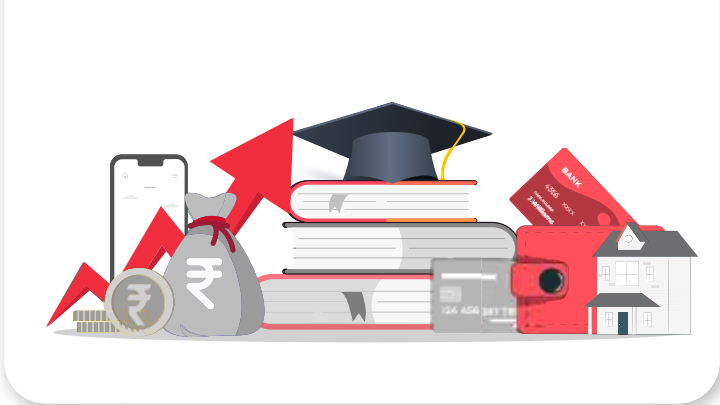
3%
Health Care

4%
Education



Expanding Access to Financial Opportunities

This shift in borrowing patterns presents both challenges and opportunities. While it indicates a growing sense of economic optimism, it also underscores the need for financial institutions to tailor their offerings to meet the evolving needs of this segment. Providing access can empower the lower middle class to navigate the financial landscape and achieve their aspirations.



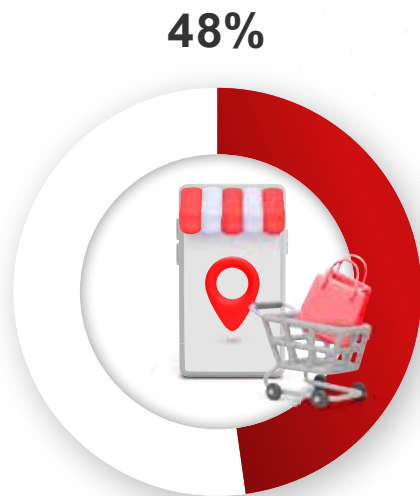
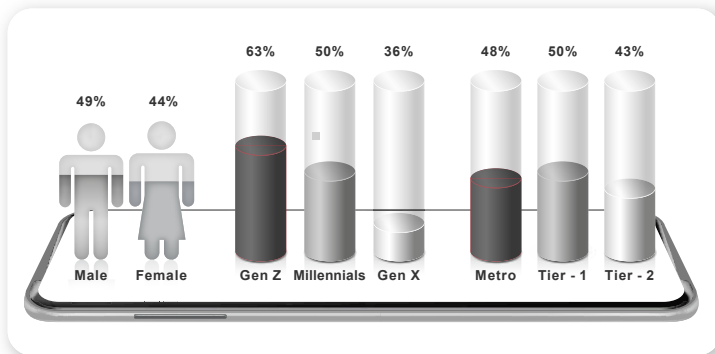
RISE IN DIGITAL FINANCIAL TRANSACTIONS



Increasing Prevalence of Online Shopping

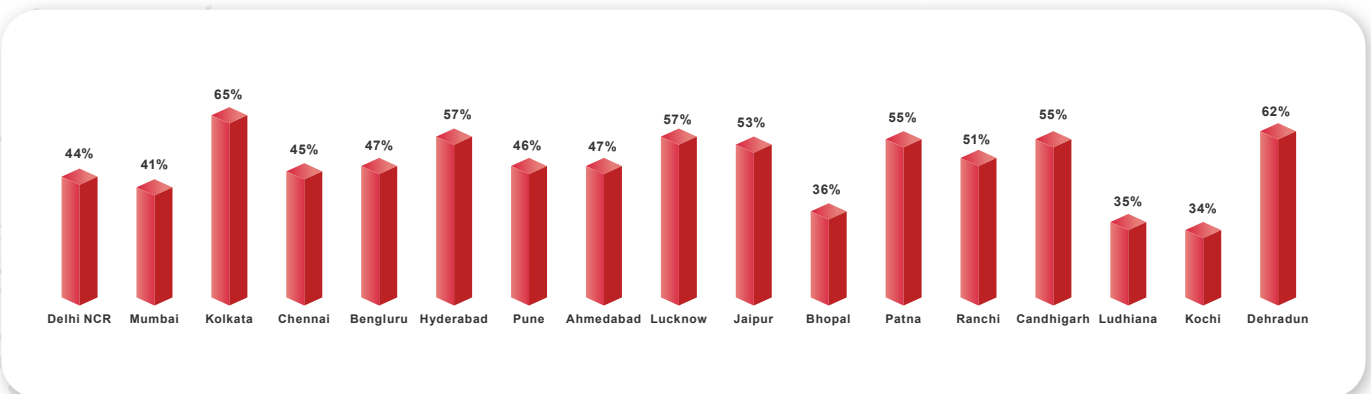
The digital landscape underwent an unprecedented transformation during the COVID-19 pandemic, with its impact rippling across demographics and fundamentally altering consumer behavior. One of the most significant consequences was the explosive growth of online shopping, with a staggering 69% of consumers embracing e-commerce in 2021.

However, as the market reopened post-pandemic, this number witnessed a gradual decline, falling to 56% in 2022 and further contracting to 48% in 2023.



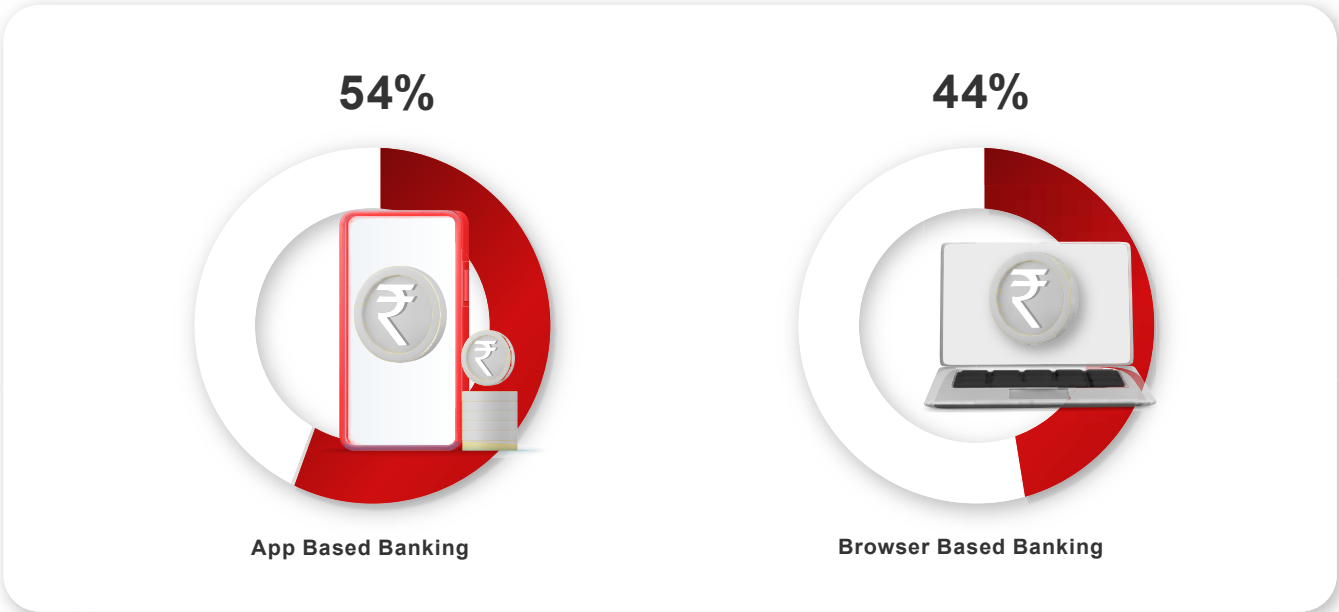
Online Shoppers

While online shopping preferences remain highest among Gen Z, its presence now extends across various town classes, demonstrating a ubiquitous acceptance.

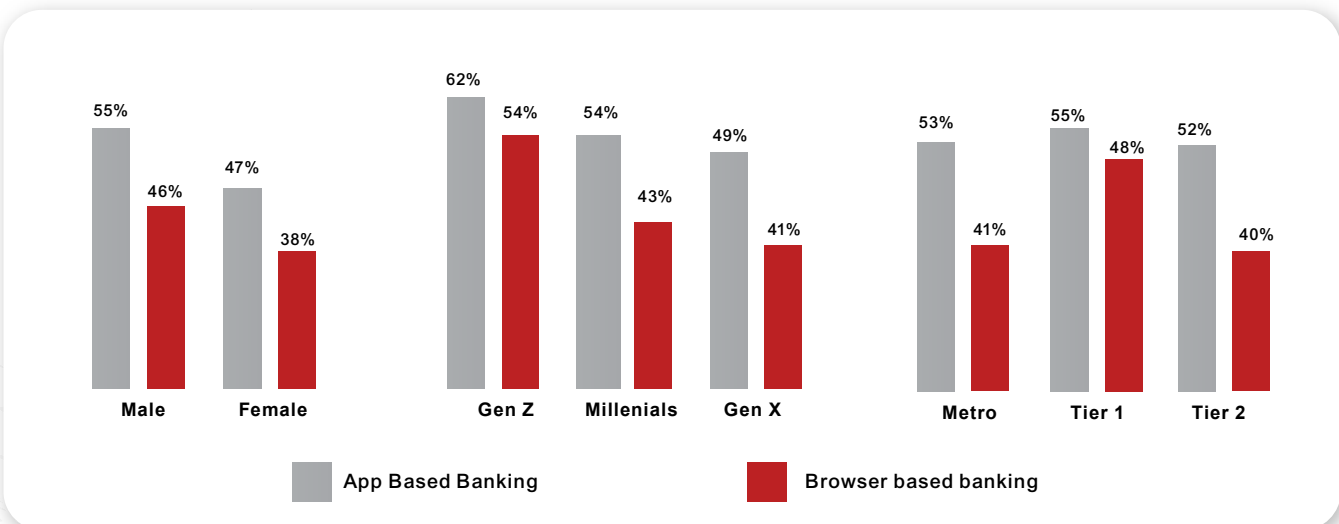


Rise in the Usage of Digital Banking

This increased online presence has also profoundly influenced consumer attitudes towards financial transactions. Today's customers prioritize convenience, seeking anytime-anywhere access and the ability to manage their finances at their fingertips.



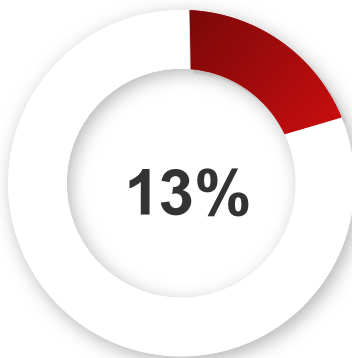
Although both browser and app based banking offer digital access to banking services, they cater to different preferences and usage scenarios. This survey reveals that mobile banking reigns supreme, with 54% of consumers opting for mobile Apps, compared to 44% rely on App banking through websites or browsers.



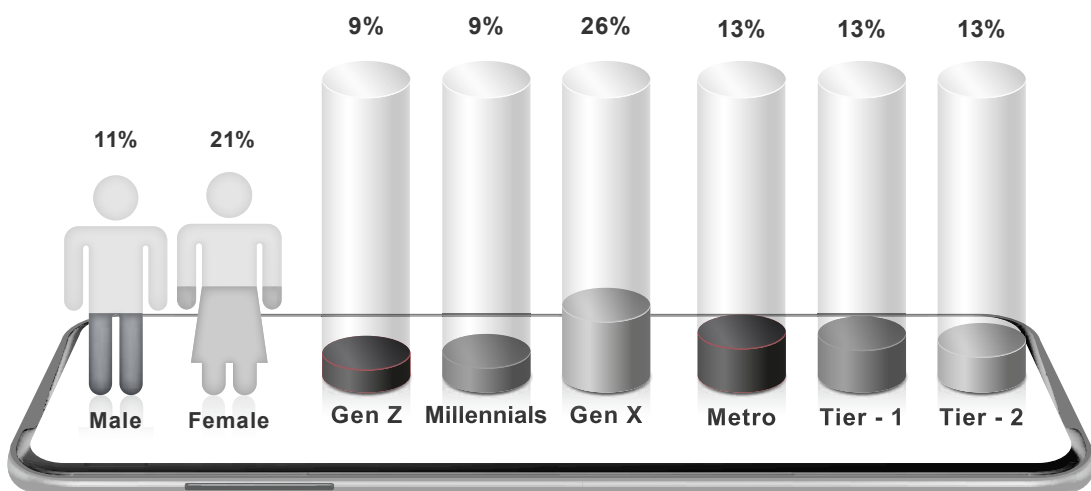
Interestingly, town class doesn't seem to play a role in this preference, but Gen Z emerges as the generation most comfortable with digitizing their financial processes.

NEED FOR FINANCIAL LITERACY

Despite the undeniable surge in digital financial transactions and the widespread adoption of internet banking, a significant portion of customers still require assistance in navigating these digital platforms. Roughly 13% of customers seek help to better understand the processes involved in internet banking, highlighting the critical need for ongoing support and education. It's mostly women and Gen X, who rely on others more while shopping online, accessing net-banking & e-wallets.

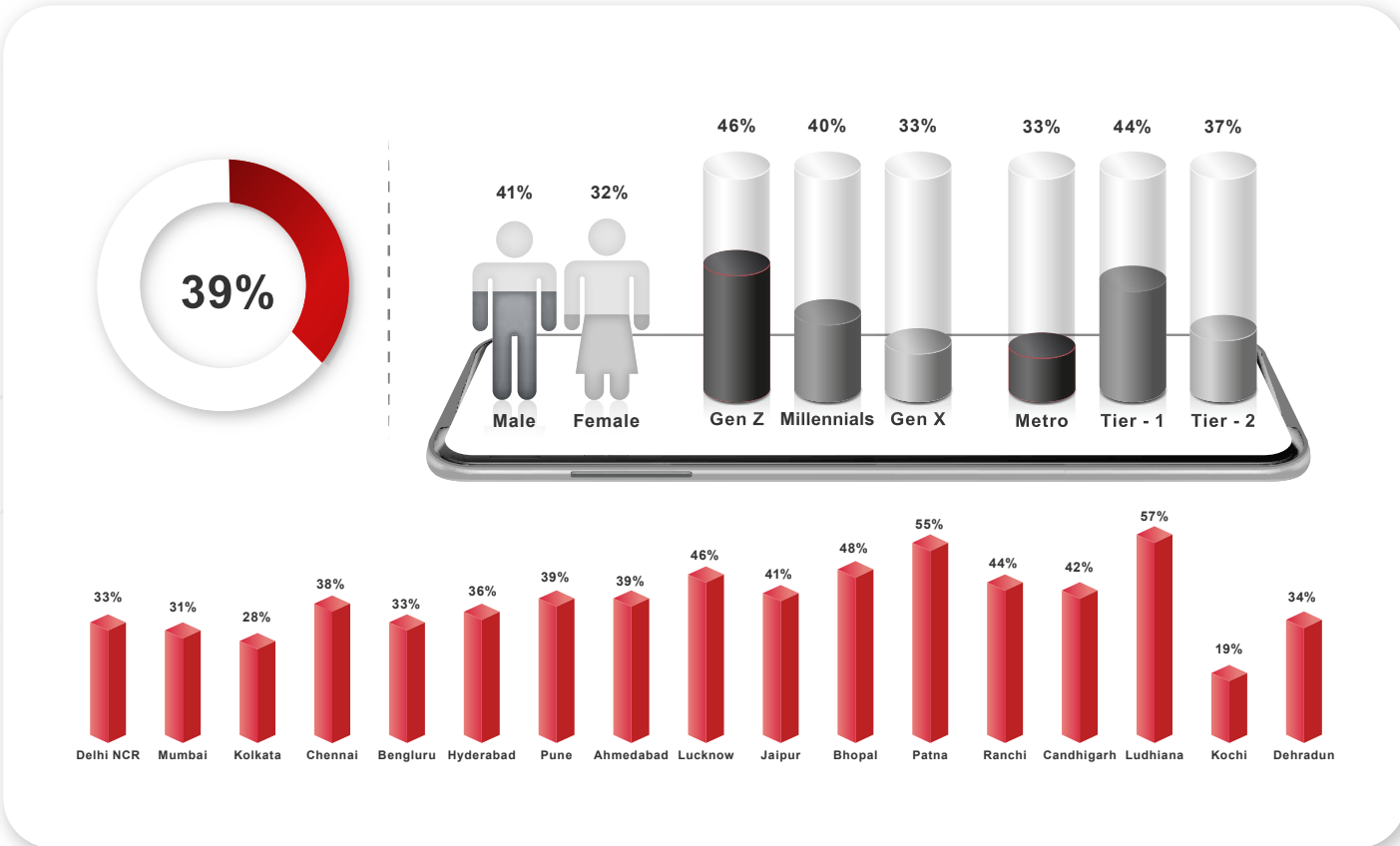


“I seek help from others to use net-banking, payment wallets etc.”



The study also reveals a significant appetite for financial knowledge among consumers, with 39% expressing their desire for education about finance-related tasks using internet. This desire is particularly pronounced among men and Gen Z, highlighting their proactive approach towards financial & digital literacy.

Interestingly, geographic variations emerge, with residents in smaller towns like Ludhiana (57%), Patna (55%) and Bhopal (48%) showing the strongest interest in financial learning. Metros, on the other hand, demonstrate lower enthusiasm. These disparities likely reflect a complex interplay of factors such as existing financial literacy levels, access to educational resources, and cultural attitudes towards financial knowledge.



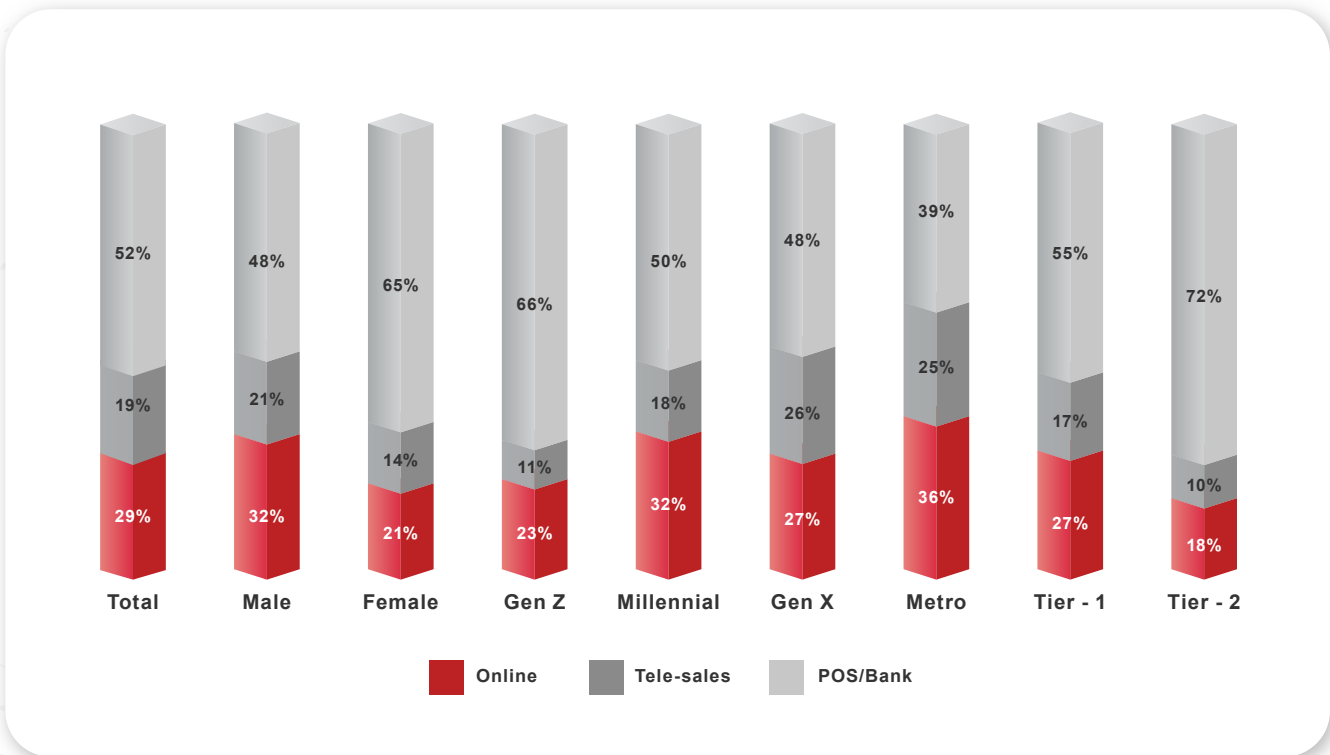
PREFERENCE FOR DIGITAL CREDIT



Past Loan Journey

The rapid rise of internet usage in India, with over 700 million users and counting, has undeniably impacted consumer behavior. While digital literacy and smartphone penetration have climbed steadily across various demographics, a surprising trend emerges, with over 50% of consumers still preferring the traditional route of physically visiting to shops or banks to obtain loans.

However, this trend is not static. In sync with the increasing digital adoption, 30% of consumers have embraced the convenience of online borrowing, demonstrating a growing acceptance of digital financial services. Interestingly, phone-based loan applications also show promise, with a 3% increase in preference over past year. This represents 20% of the market, indicating the consumer preference for convenience.





Examining regional preferences reveals a fascinating insight, consumers in Kolkata & Southern metropolitan areas exhibit a higher inclination towards online borrowing. Conversely, in North and Western metropolis, traditional methods reign supreme, with loan applications almost exclusively handled through in-person visits.

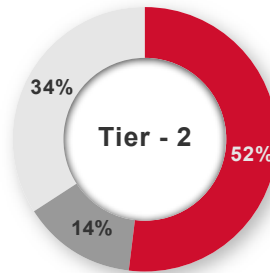
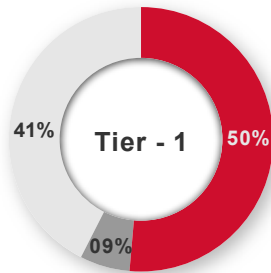
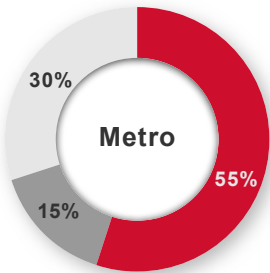
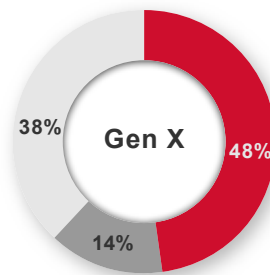
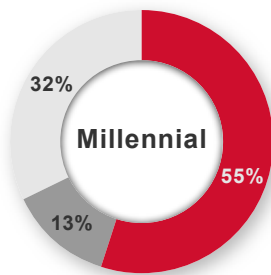
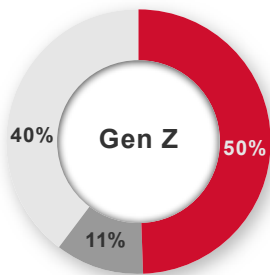
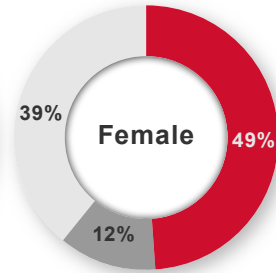
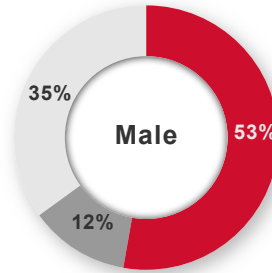
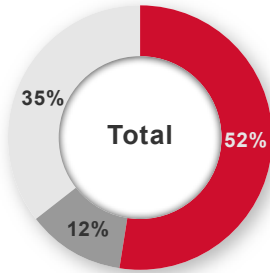
One surprising observation challenges conventional assumption, Gen X, contrary to popular belief, demonstrates a greater inclination towards online loan applications compared to millennials and zillennials (Gen Z).



Future Loan Preference

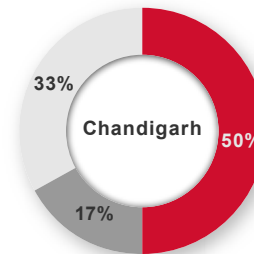
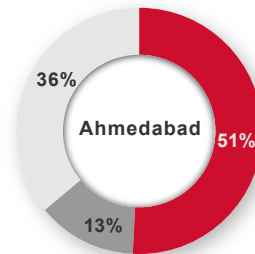
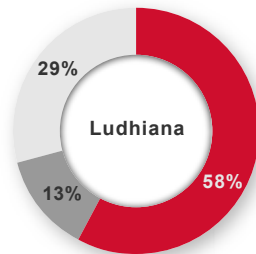
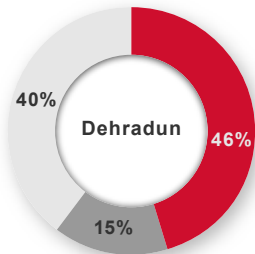
In line with the digital transition, more than half of the borrowers (51%) are looking forward to completing their entire loan application on mobile App without any physical interaction with POS / Banks. The preference for online loan mediums is primarily driven by younger and aspirational small-town borrowers, with cities like Dehradun at 61%, Ludhiana at 59%, Ahmedabad at 56%, and Chandigarh at 52%.





■ My completing entire loan application on mobile App without visiting anywhere
■ By visiting the nearby bank / POS to apply for a loan

■ By speaking to customer care representative over a call to complete the loan application

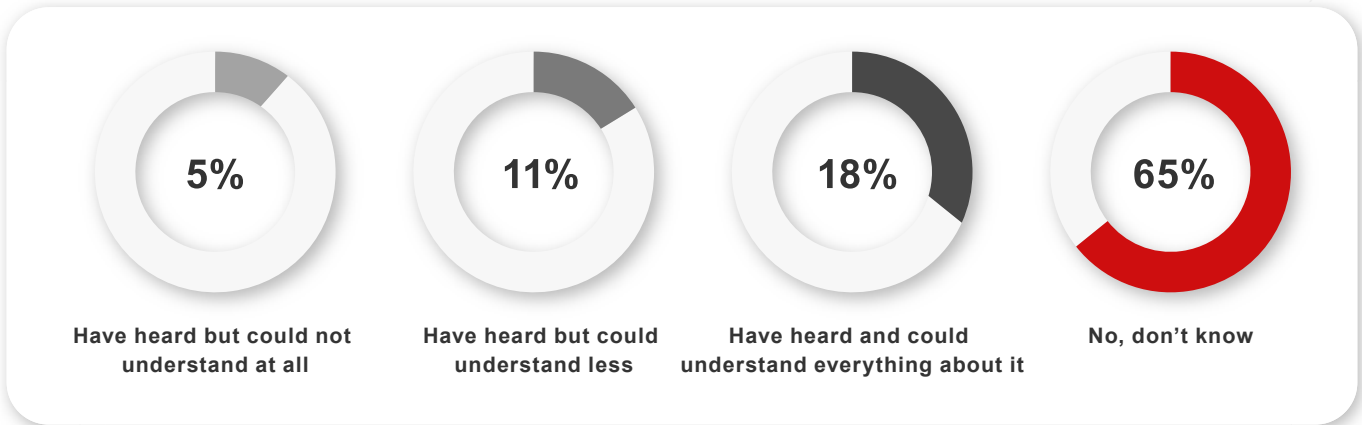


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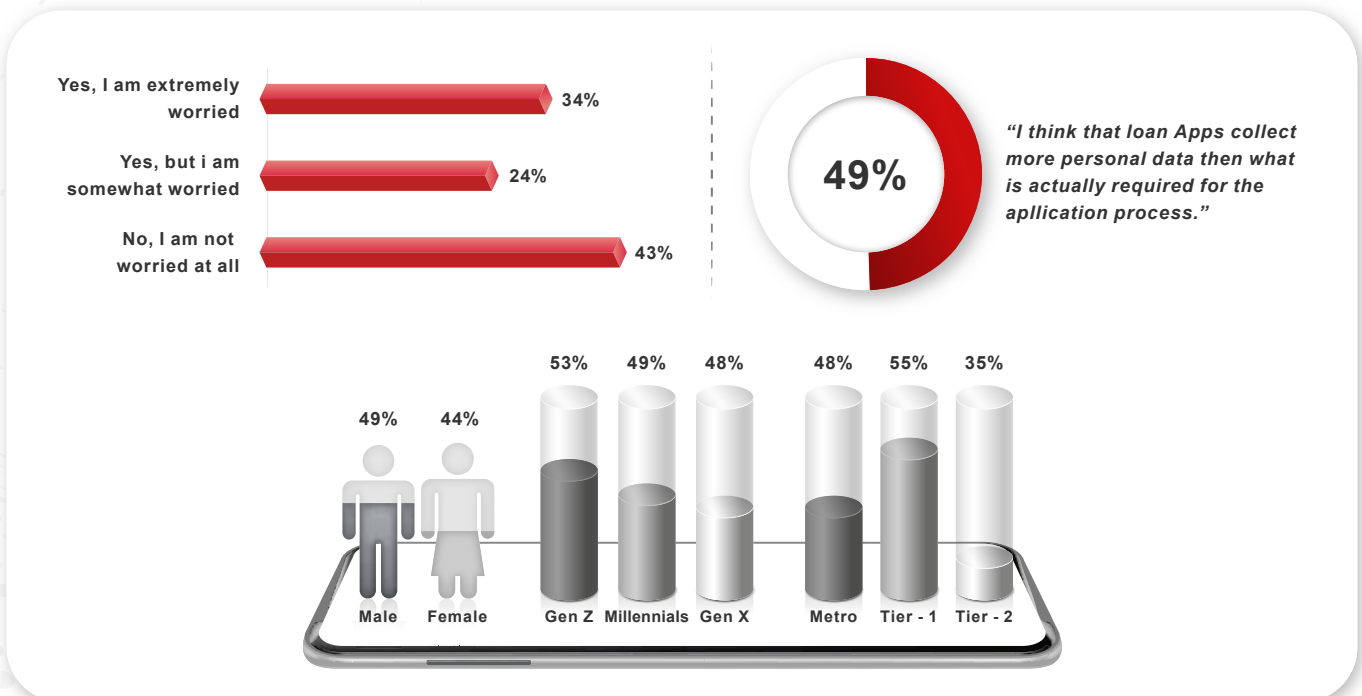
■ By speaking to customer care representative over a call to complete the loan application

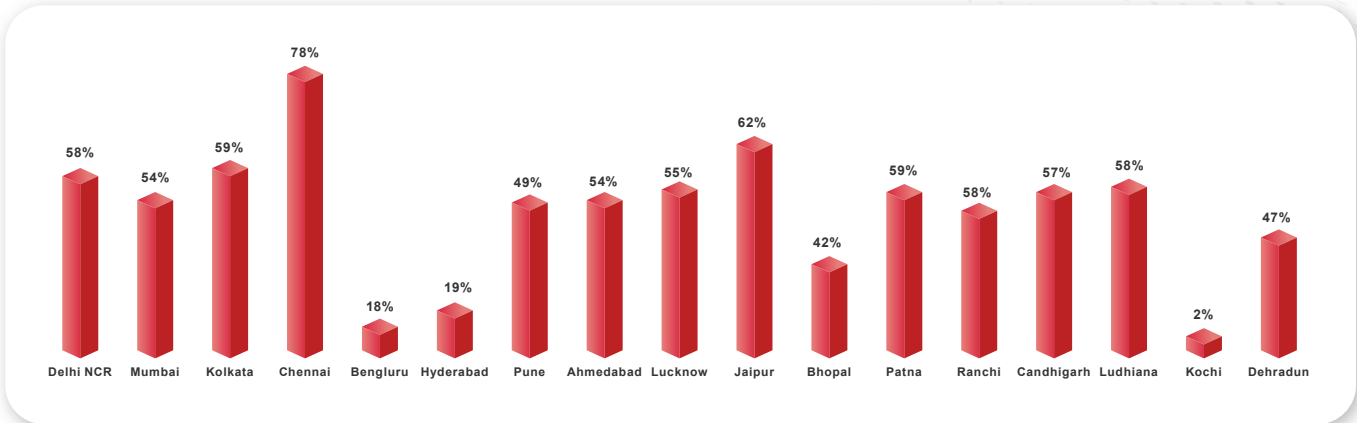
AWARENESS FOR DATA PRIVACY

As India accelerates into the digital lending era, the study underlines a critical concern among borrowers regarding the usage of their personal data by loan companies. Only 18% of borrowers are aware of the data privacy law, guidelines and rules in India. When asked about their understanding on the subject, 88% of the above have some superficial knowledge on the subject but lack complete understanding. 65% borrowers are in the complete dark, when it comes to their knowledge about data privacy and have not even heard about this. Limited knowledge makes them extremely vulnerable to any kind of data fraud and misuse.

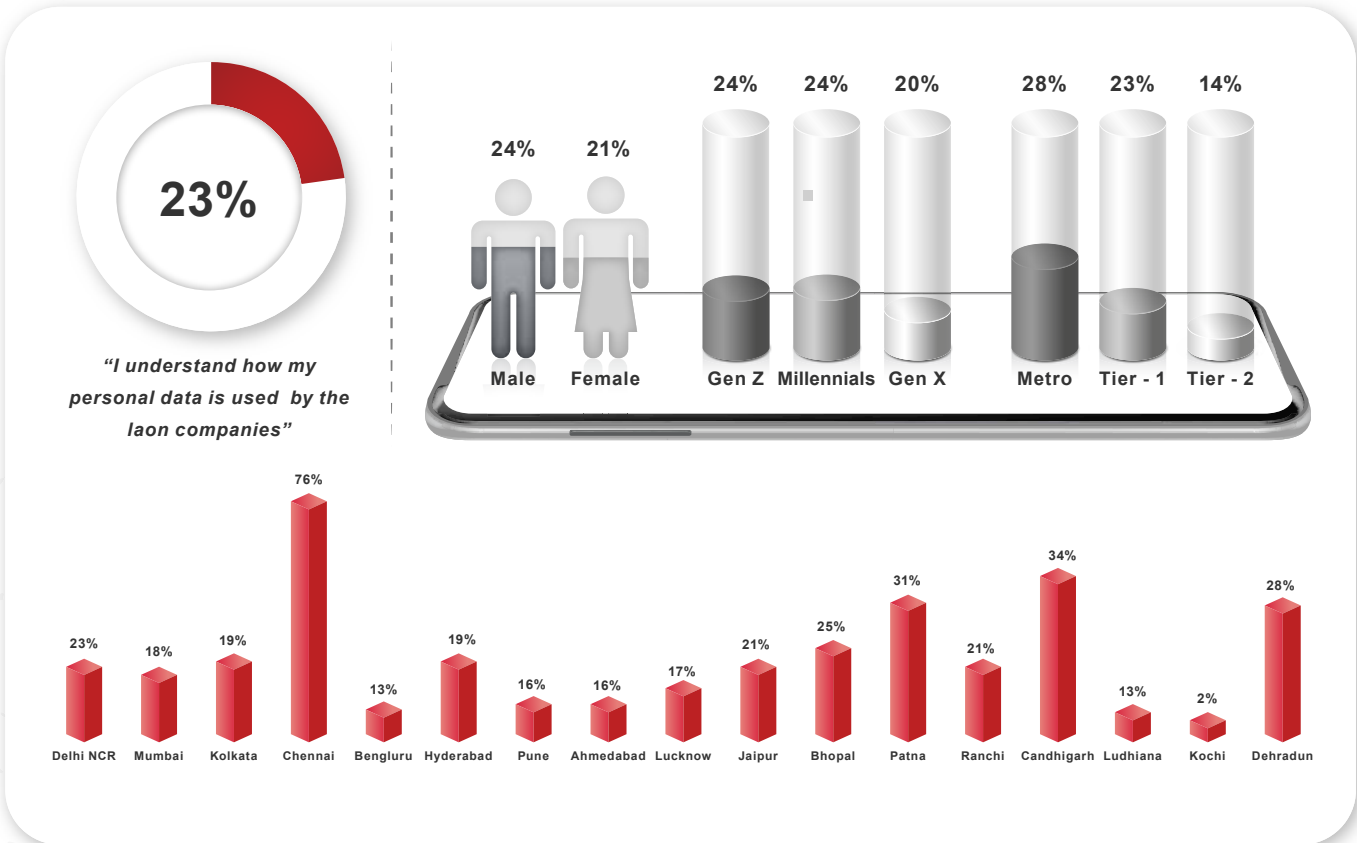


About 60% borrowers are worried about how their personal data is collected and used by the lending Apps. 58% of these worried borrowers also feel that the lending Apps collect more data than required. Gen Z and borrowers from smaller towns show higher concern with the amount of data being collected by lending Apps. Among metros, 78% of borrowers from Chennai voice their concern about the amount of data collected.

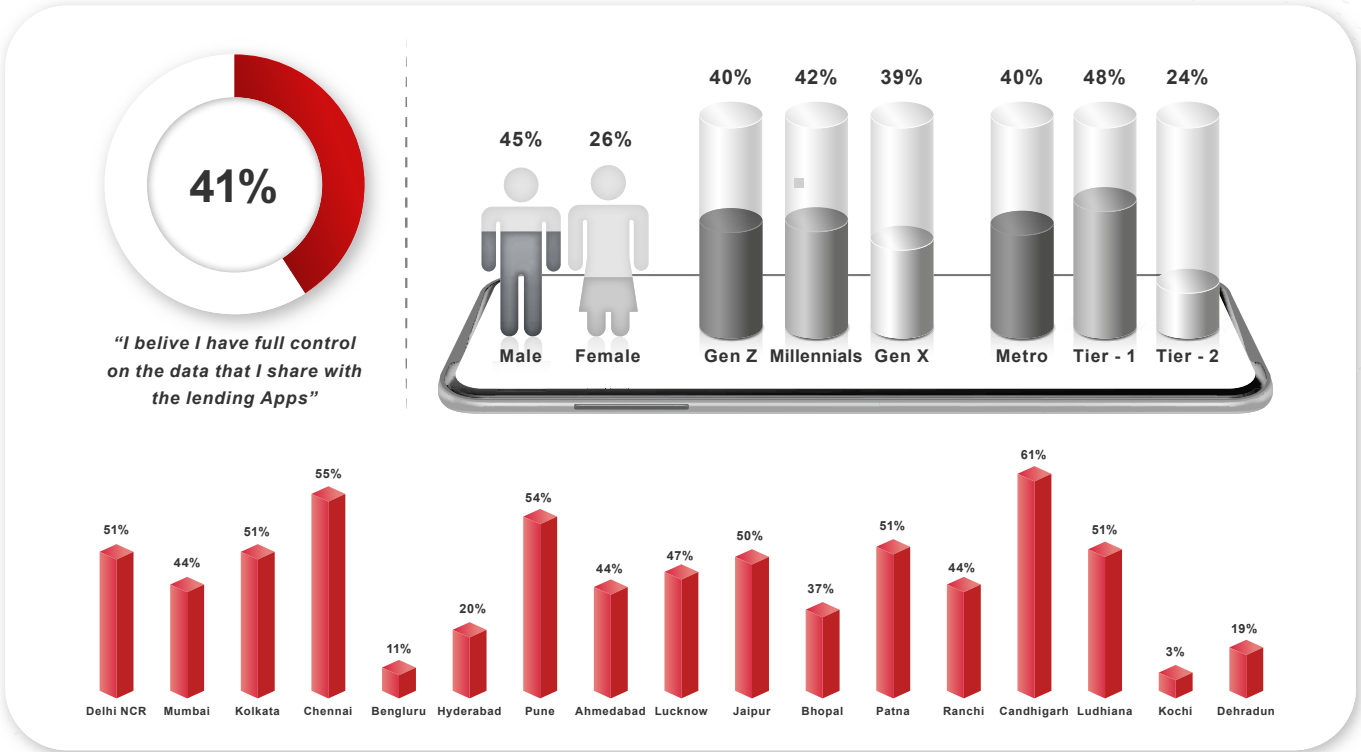




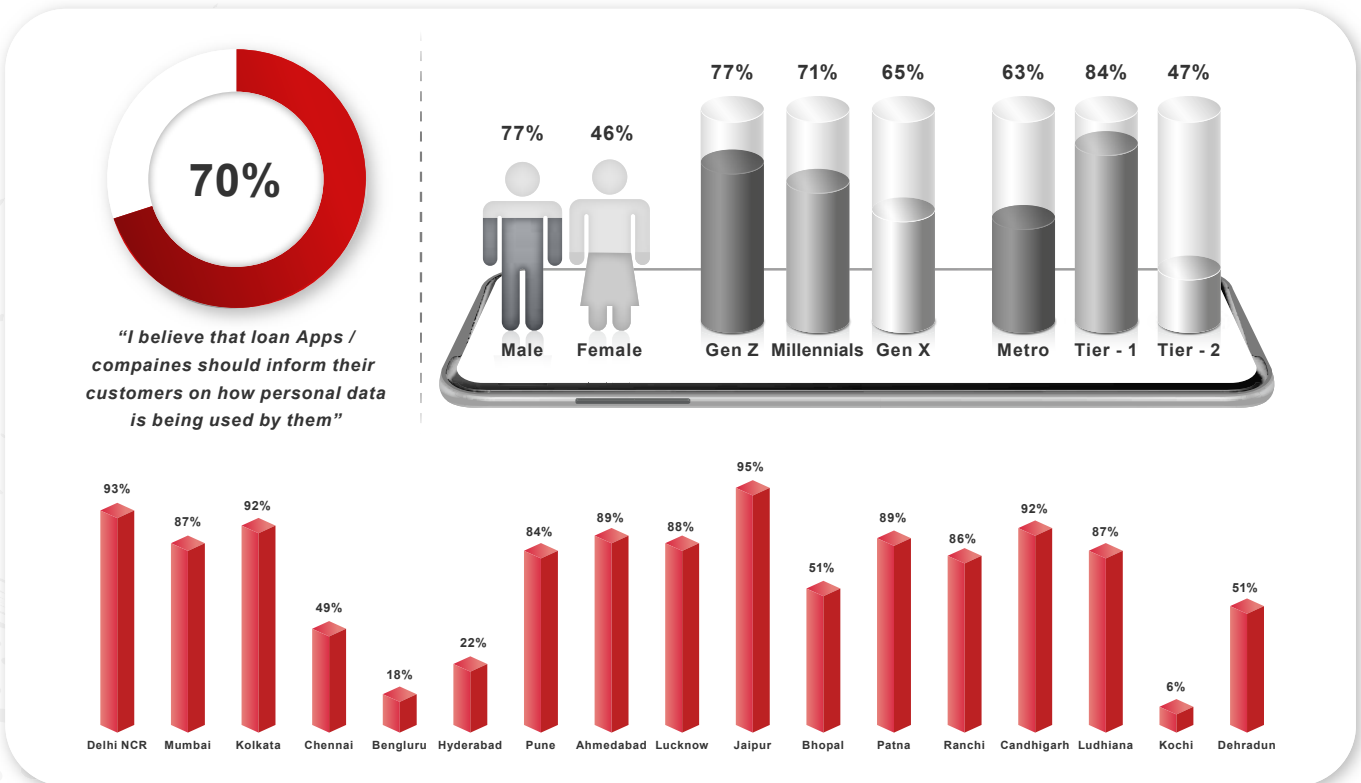
Less than one-fourth (23%) of the borrowers understand about the usage of their personal data by loan Apps. Borrowers from Chennai seem to be more digitally advanced and 78% of them claim to understand the usage of personal data.



Almost 60% of the borrowers in India, voice out that they don't have any control on the data being shared by them.



Most borrowers (70%) believe that the lending companies should maintain transparency in the usage of the customers' personal data. This is mostly driven by males and Gen Z. Borrowers across geographies except South seem to have a similar opinion.



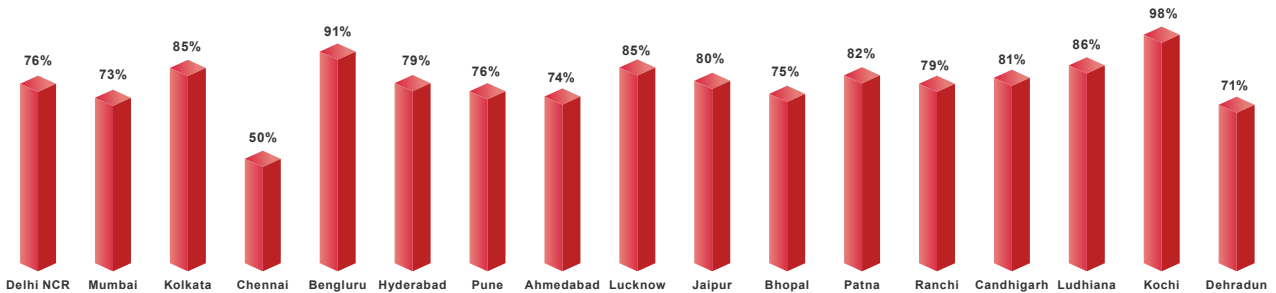
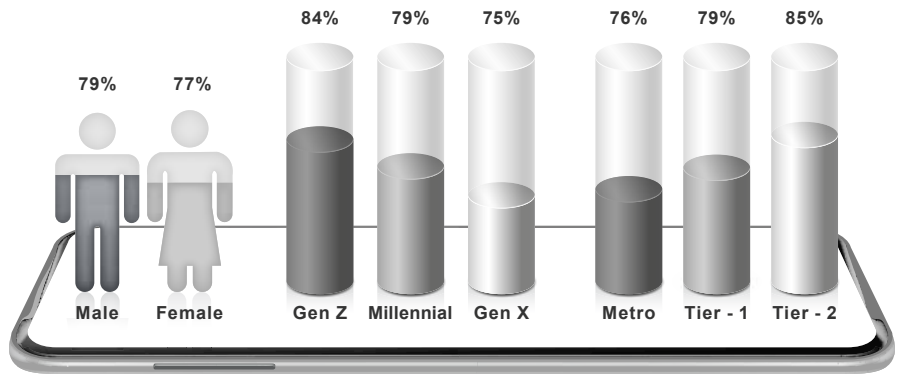
EMERGING LENDING PLATFORMS

With 71% of the Indian urban population using Internet, the use of digital technology to access financial services has become an everyday occurrence for many of us. This has its influence on how we spend, save, and borrow money.

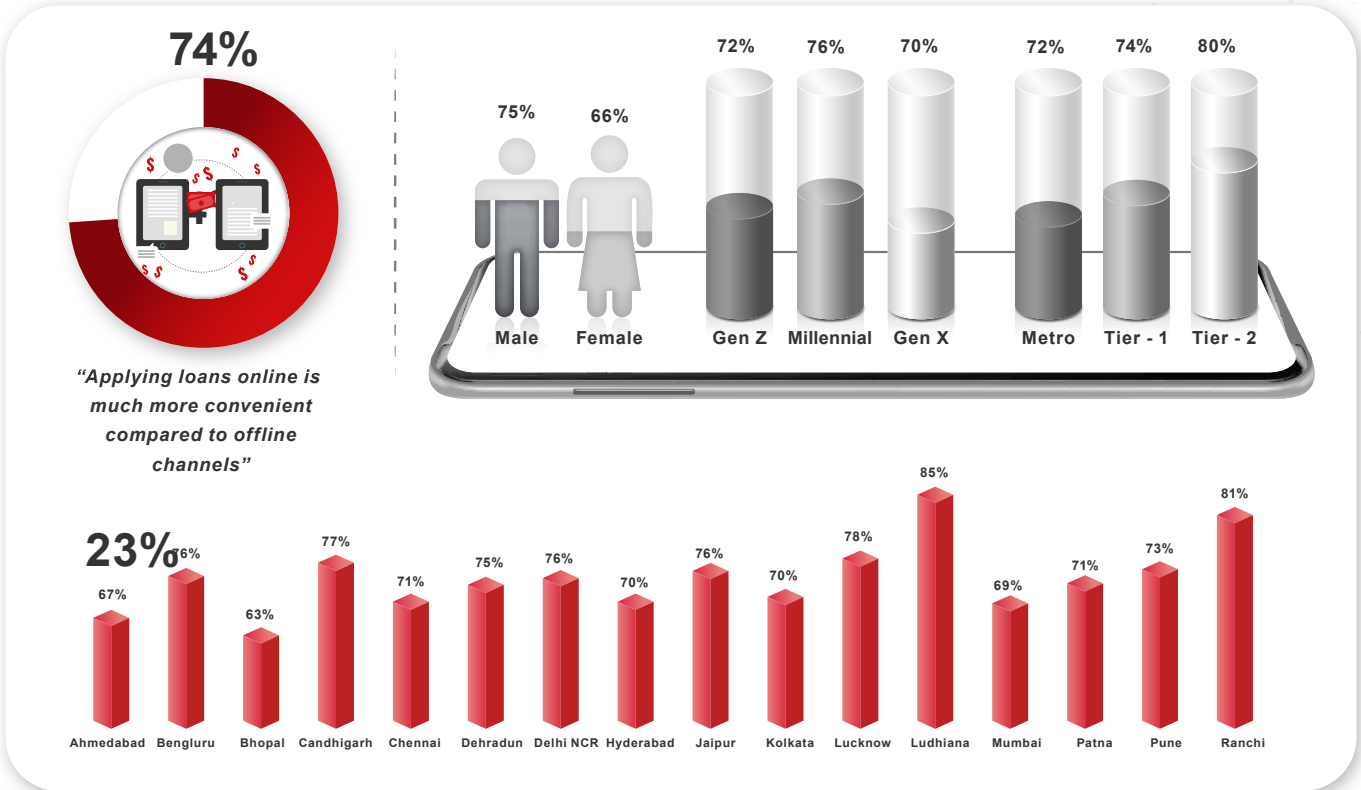
79% borrowers are optimistic about continued adoption of digital lending due to internet & data revolution. In the last two years, this belief has gained more foothold among these borrowers and has increased by 5%. This is a strong sentiment across all demographics, particularly stronger among Zillennials (Gen Z) and small-town borrowers.



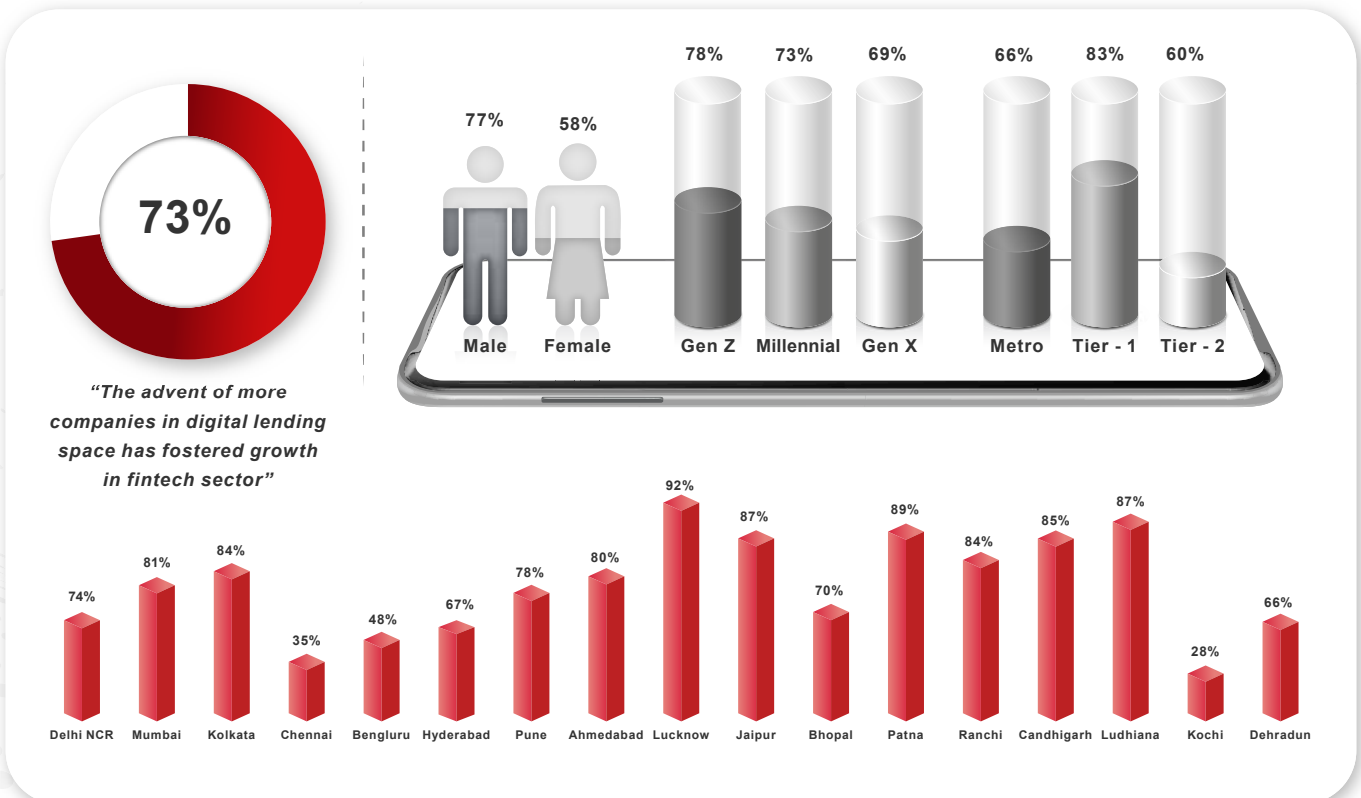
"I believe the use of online loans is going to increase even further with the internet and data revolution"



One of the key reasons for this behavioral change seems to be triggered by the convenience. 74% of the borrowers feel that applying for online loan is more convenient. Young borrowers, lesser than 40 years of age and borrowers from smaller towns are more besotted by the online convenience. Importance of convenience has increased significantly among Females and Gen Z in the last two years.



More than 70% of borrowers are optimistic about the growth in the fintech due to the advent of more digital lending companies. This belief has become stronger among the borrowers from tier 2 towns.





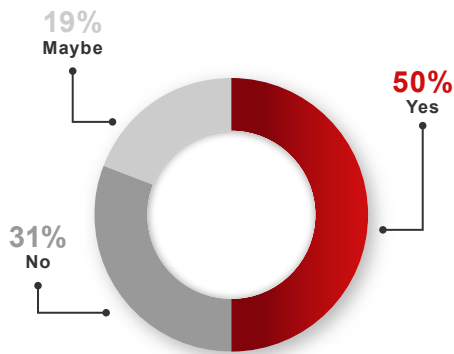
Embedded Finance (Em-Fi)

Convenience in today's world is probably one of the most sought-after ask by a customer in any business with the idea of having everything in one place. This has led to growing preference for embedded finance.

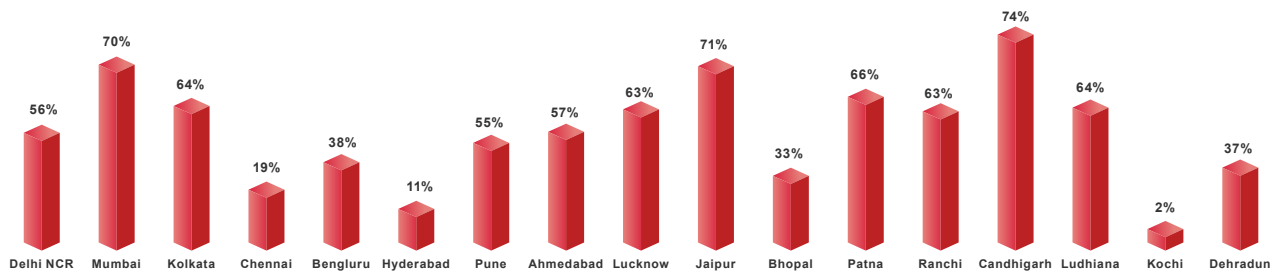
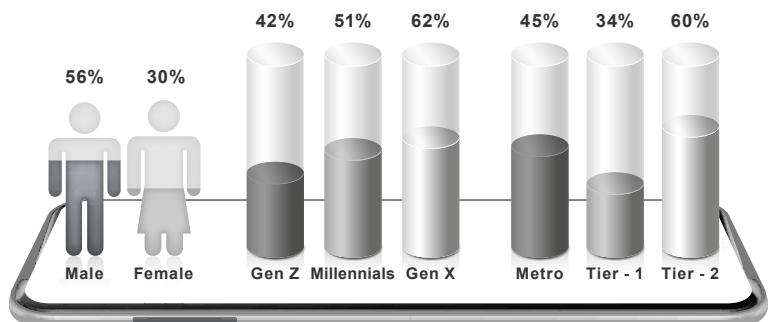
The increasing importance of Em-Fi, especially in e-com can be estimated by the fact that almost half of the loan consumers trust this mechanism. This trust is driven by Gen Z (62%), Males (56%), Mid-sized towns (60%) like Ludhiana, Chandigarh, Ranchi, Patna, Jaipur, Lucknow.

Em-Fi, as voiced by Indian credit takers, makes the checkout process faster (42%) and easier (24%). In addition, it usually has lesser add on costs like processing fee (21%) which credit cards and vanilla loans may have.

However, Em-Fi has been a reducing phenomenon with trust in the mode falling from ~60% to the current ~50% levels. This is in sync with RBI's current state of curtailing the massive growth of unsecured loans.

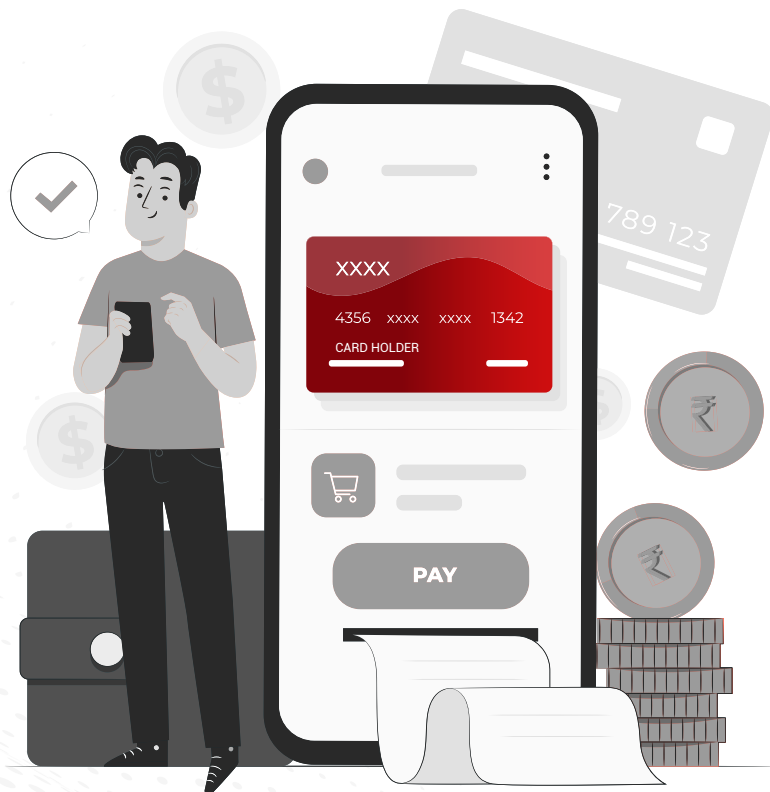
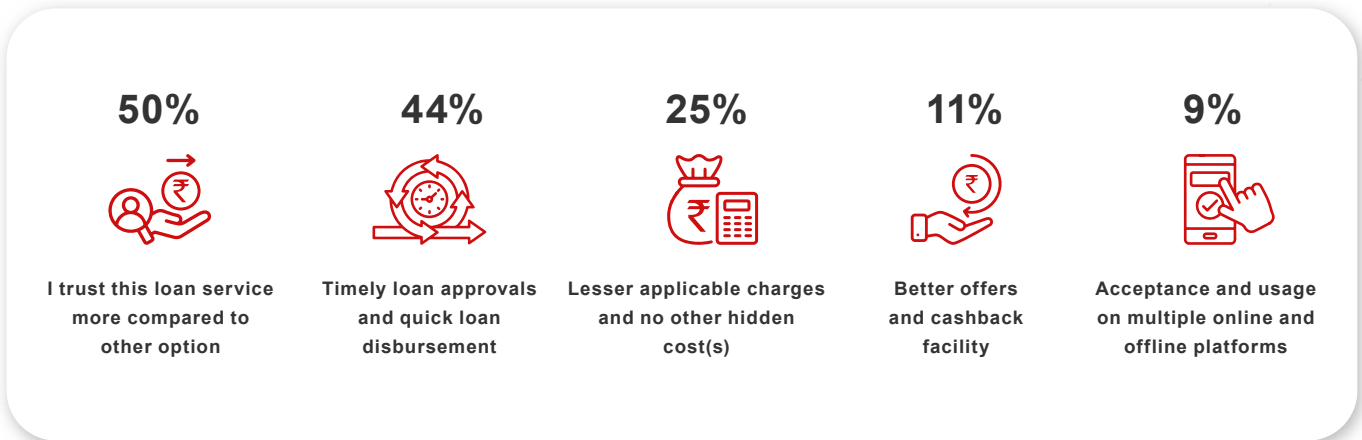


Percentage of respondents who would like to use embedded finance



 **EMI Cards**

Among the various formats for availing credit from the market, EMI cards appear to be the most preferred. Almost 50% of borrowers showed a preference for EMI cards when it came to shopping or taking credit, followed by credit cards at 20%. Borrowers view EMI cards as trustworthy, with timely approvals and quick disbursals. Additionally, 25% of borrowers feel that EMI cards help them save, with fewer applicable charges and no hidden costs.

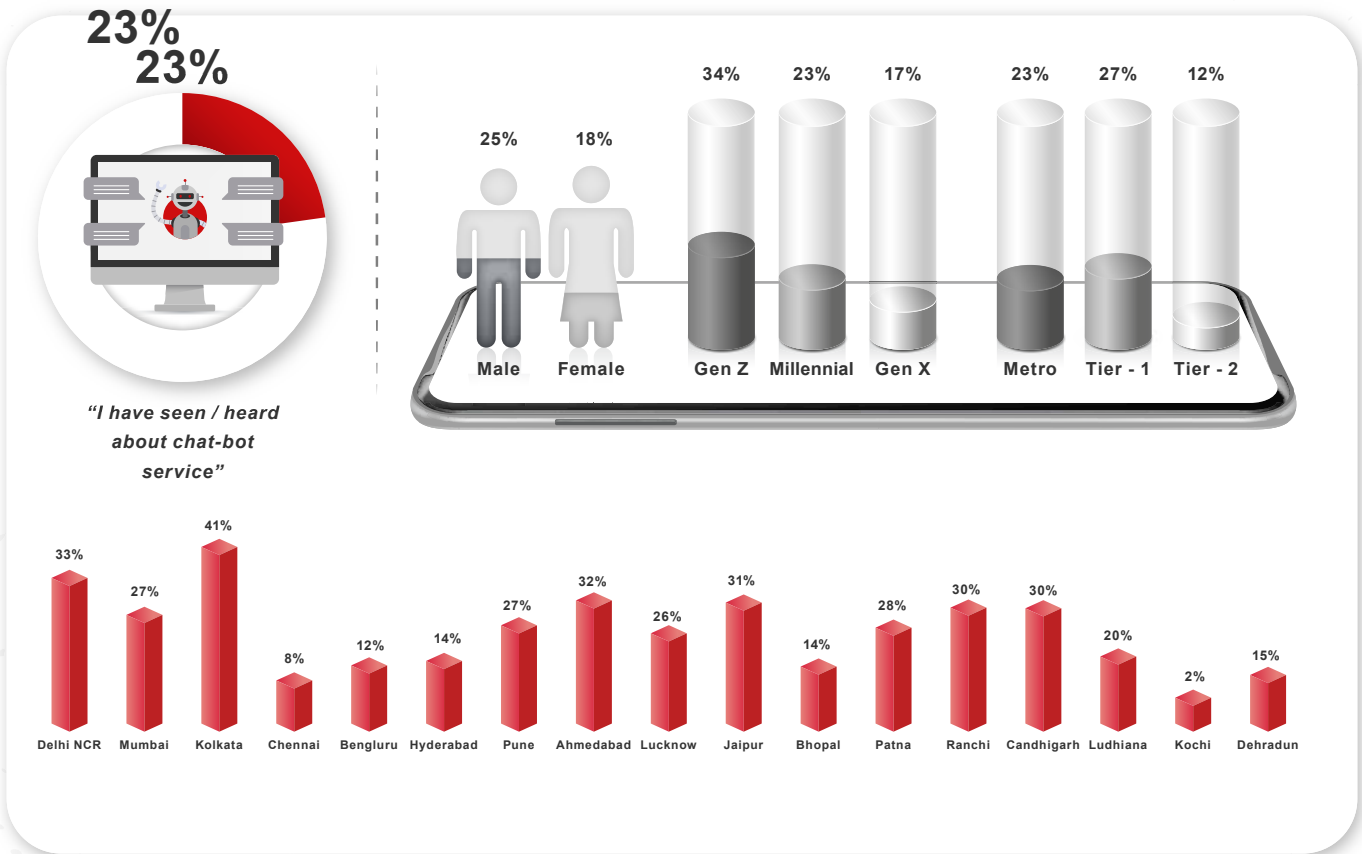


USAGE OF CHATBOTS AND WHATSAPP

Acceptance of Chatbots as a Communication Medium

Chatbots has emerged as a key servicing tool for financial service providers. Chatbots increases the efficiency of the service provider with 24/7 assistance, managing routine & multiple tasks at a time, providing consistent service, and reducing human intervention, making it more effective for the companies.

Despite all the benefits, only 23% of the middle-class borrowers have heard or seen about the Chatbot service in the past. Familiarity of Chatbots is governed by acceptance of digital trends and inline customer digital transition with males, Gen Z and borrowers from metro and Tier - 1 towns showing higher level of awareness.

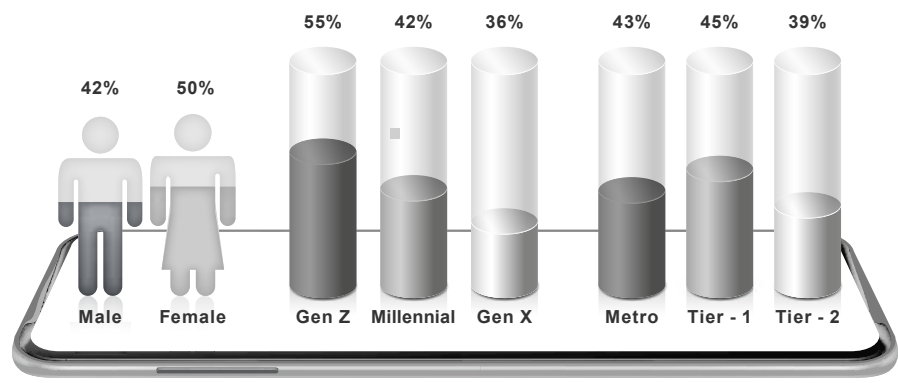


A major chunk of Chatbot aware borrowers (43%) find the service as easy to use especially Women, Gen Z borrowers. 38% of these aware borrowers also consider the responses provided by Chatbot as trustworthy. Trust in Chatbots has increased significantly in last three years, from 19% in 2021 to 38% in 2023, giving a positive signal for the financial institutions to use it at its fullest.

43%



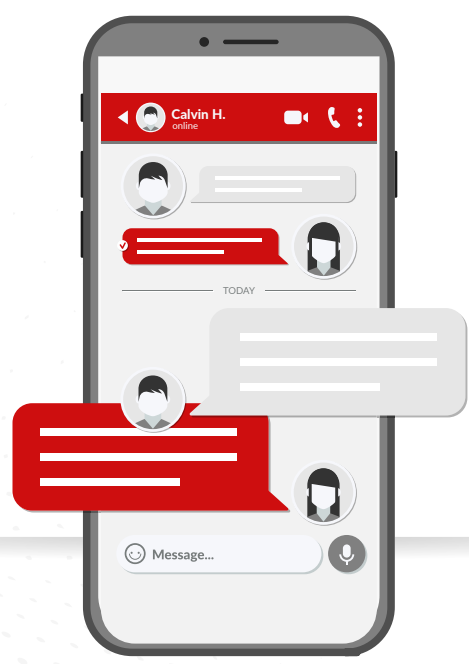
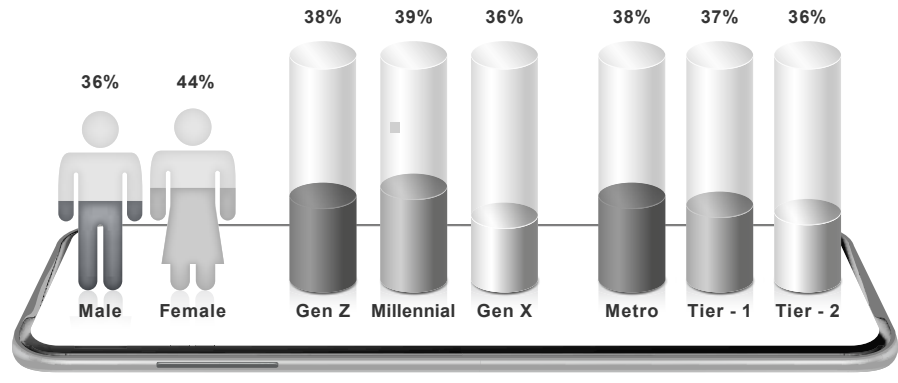
"I find the Chatbot service as easy-to-use facility"



38%



"I trust the responses / solutions provided by the Chatbot"



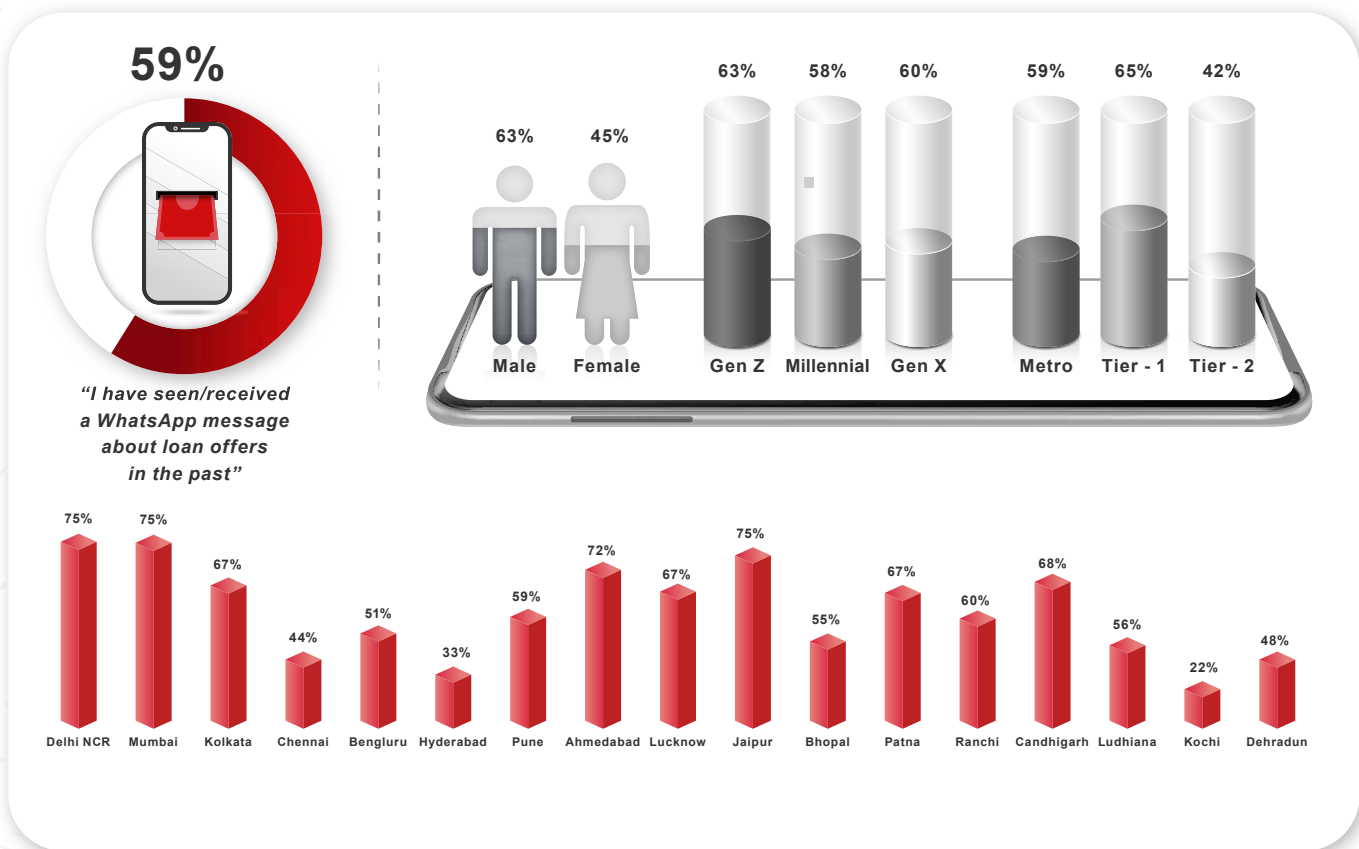
Acceptance of WhatsApp as a Lending and Communication Medium

Besides Chatbot, WhatsApp is another emerging digital channel which can be used extensively by Financial Institutions for reaching out to their customers and providing service delight.

This is a medium which has been tested extensively during Covid by different state governments across India for allocating and managing resources better. Post that, different state governments also proposed the usage of WhatsApp as a perfect mode of communication with the public.

In the current scenario, almost 60% borrowers have come across a WhatsApp message about a loan offer in the recent past.

Like Chatbots, Trust in WhatsApp has doubled in last three years, from 12% in 2021 to 24% in 2023, indicating a positive shift in digital adoption.





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