An insight into Retail Loans: Evidence from Indian Banks

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Retail loans in India started to gather momentum after 1990 and increased significantly during the last decade. As on March-2020, more than a quarter of total advances consist of retail loans. Its importance in the banking system and economy is substantial now. The focus of this article is on risks and stresses of the retail sector vis-à-vis other sectors, dynamics of retail NPAs and its constituents. The years 2004 and 2011 are the two years of paradigm shift in retail credit. After 2011, of retail loans saw a very steep rise. Education loan is the most stressed category among retail loans and housing loan has the best asset quality. Retail loans has become attractive for banks from both the points of view - Asset Quality as well as Risk Weighted Assets. In spite of lower NPAs, there have been intermittent signs of stress time-to-time for few categories of retail loans and banks are required to be careful in disbursing retail loans also.

1. Introduction

Retail Banking refers to the dealing with individual customers by banks directly. Prior to the reforms of the 1990s, bank credit was mostly focused on Agriculture, Industry and Services sectors. There were various regulatory restrictions at that time on retail credit in terms of total amount of loan, interest rates, repayment periods etc. These were gradually relaxed since the 1990s and this paved way for consumers availing facility directly from banks.

The share of retail loans in total credit, which increased from mere 3.4% in 1972 to whopping 21.6% in 2019, exhibits its importance in the economy in the current scenario.

Table 1: Retail Loan by Scheduled Commercial Banks

Period	No. of Accounts	Amount Outstanding (₹ Crore)	Share in Total Loan (%)
December-1972	102,629	191	3.4
March-1990	4,869,207	6,698	6.4
March-2004	28,368,564	179,087	20.3
March-2011	52,419,111	670,135	16.4
March-2019	84,940,288	2,136,648	21.6

Source: Basic Statistical Returns, RBI

Retail loans directly benefits the individuals in various forms e.g. buying or building a house, buying a car, education for self and children, marriage purpose, purchasing consumer durables, any family emergency situation etc. They also support certain industries such as automobiles, consumer durables, housing etc. by boosting consumption demand for their products and services. It is also paramount to mention that retail banking in India is not completely a new phenomenon. It has always been prevalent in various formats, though its size was very small compared to global tends till early 2000s. Earlier when retail loans were not in focus for banks, non-bank players were the major lenders in this sector. Local money lenders in unorganized sector and to some extent various non-banking finance companies (NBFCs) were fulfilling the gaps. NBFCs were primarily in the business of leasing in those days (equipment leasing, equipment loans etc.). Nevertheless, since the last decade it has become synonymous with mainstream banking for many banks especially private sector lenders. It is good for the country when people come to formal banking channel for funding.

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The views expressed in the article are those of the author and do not necessarily represent the views of the Reserve Bank of India.

Banks are better regulated and supervised entities compared to non-banks, also loans from banks are relatively cheaper.

It is evident from the above table that numbers of individuals benefitting from personal loans has increased many folds during the last few decades. Number of retail accounts per thousand population has increased from 0.2 in 1972 to 62.2 in 2019. However, in comparison to the developed countries, still it is a long way to go. It suggests the immense growth potential in this sector for the banks. Financial outreach and availability of banking services is also an important factor behind the expansion of retail sector. *Financial Inclusion* initiative by Reserve Bank of India (RBI) has resulted in many bank branches being opened in rural and semi urban areas in the last decade and it is expected to grow further in the coming decade.

With the technological advancement in the banking sector, more number of customers are getting accustomed to the banks and loans. ATMs, UPI apps, internet banking, mobile banking, credit cards and easy EMI options have opened a new world to the customers. People have started experiencing various available products and slowly financial literacy also is growing among the common masses.

With the expansion of retail banking it is also desirable to study the risks associated with it. Is the retail sector relatively more unsafe than other sectors e.g. Agriculture, Industry or Services sector? Inside the retail sector, which are the major components and what are the potential risks associated with it? Credit Information Bureaus (CIBs) came into existence in India in 2005 with *TransUnion CIBIL*. Gradually it popularised the credit scores so much in general public that now a days, many people call credit score as CIBIL score. There are six Credit Bureaus, approved by RBI now, which provide credit scores. Credit Score is now a must for any type of retail loan – credit cards, housing loan or a car loan. Thus CIBs play an important role in mitigating the risk of retail loans. It is attempted to decipher the data in this study and draw some meaningful conclusions regarding the NPAs of retail loans.

The rest of the article is organised as follows: Section 2 provides a brief overview of the past studies in this area. Section 3 tries to find out the year of paradigm shift in retail loans. Section 4 focuses on the various components of retail loans, Section 5 looks into the trend of retail NPAs, Section 6 analyses the risk weights associated with retail loans, Section 7 finds out causality between retail loan growth and NPA and finally Section 8 sets out the concluding inferences drawn.

2. Past Studies

Retail Banking has been at the periscope of researchers as well as economic news reporters since last two decades. *Shyamala Gopinath, Deputy Governor of RBI (2005)* emphasized the retail banking as the growth trigger for banks in her address at the *IBA Conference.* She motioned that banks also need to monitor their exposure and the credit quality. In a fiercely competitive market, there may be some temptation to slacken the loan scrutiny procedures and these needs to be severely checked.

Vighneswara Swamy (2012) studied the retail borrower's perception based on the data collected through a questionnaire from 120 retail bank borrowers. He used twelve factors covering all aspects of retail banking e.g. marketing of a product, loan documentation, interest rates, post-sanction treatment etc. Factor analysis was used to determine the important determinants from the above factors. The twelve factors were grouped to two significant factors and were named as *Services and Marketing of loan products* and *Economic value and convenience*. It was inferred that though the perception is positive for both public and private sector banks, private sector banks score over the public sector banks in some parameters and the public sector banks score over private sector banks in the other parameters.

R. Srinivasa Rao (2014) analysed the role of retail banking in India from various perspectives - increasing purchasing power of middle class people, affordable housing, economic prosperity, changing consumer demographics etc. He also discussed some challenges such as rising indebtedness of common people with respect to income, retention of customer by banks, money laundering and KYC issues etc. It was concluded that retail banking is one of the most tremendous areas now a days to be looked after by the banking industry as it contributes 7% to our GDP and 14% to employment.

Farniza Joshi et al. (2016) also compared the role of public and private sector banks in retail lending as done by Vighneswara Swamy (2012) but used a different set of data. Secondary data sourced from different reports and publications of Reserve Bank of India was used. It was observed that private sector banks had an edge in retail lending over public sector banks, as their focus was more on low-risk retail loans as compared to wholesale loans.

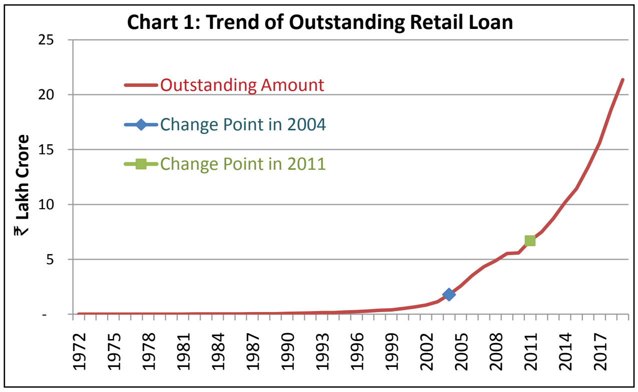
B. Vijayalakshmi et al. (2016) attempted to analyse the competition prevailing in retail banking service, to highlight various opportunities & challenges to retail banking in India and to give suggestions to expand retail banking in India. Various annual reports, books, journals and periodicals were utilized to carry out the study. Two of the key inferences were - (i) 90% of consumers prefer online banking services, regardless of age, income, place of residence or type of bank and (ii) Retail banking has also received a thrust from the regulators/policymakers' push for inclusive growth in the wake of the global financial crisis.

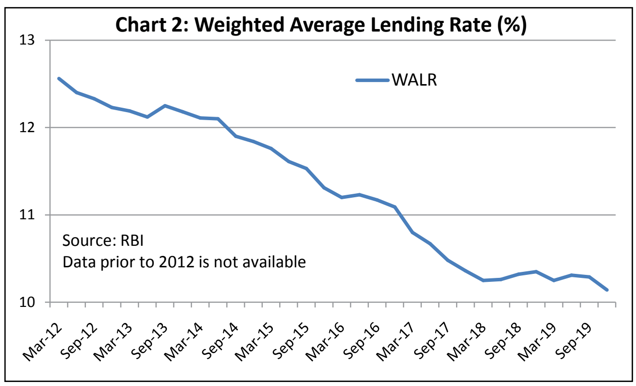
R. Nithya et al. (2016) targeted to analyse the NPAs in the retail lending. In fact, the author could find only this study dealing with NPAs in retail loans. The data source of analysis is not explicitly mentioned in the paper; however it seems to be taken from published results of various banks. Analysis was conducted on data period 2001-02 to 2014-15, it was observed that over the years the four categories of banks (SBI & Associates, Nationalised Banks, Old and New Private Banks) have reduced consumer durable loans and rest of other personal loans, On the contrary housing finance by these category of banks have increased during the study period. The reduction in lending to the retail sector has greatly supported the banks in reduction its NPAs margins.

RBI regularly publishes the *'Report on Trend and Progress of Banking in India'* on annual frequency. It contains extensive analysis on various aspects of banking for all types of FIs – commercial banks, co-operative banks, non-banking financial intermediaries etc. In the volume published in 2019, it was mentioned that because of the mounting NPAs of the industrial sector since 2012-13, banks diversified their portfolios towards services and retail loans. It has also been shown that NPAs in retail loans is lowest among the major sectors.

Above studies indicate that not much work has been done on the detailed analysis on NPAs of retail loans. Using the off-site supervisory data collected by RBI, it has been tried to venture into the detailed NPA analysis in this article.

3. Paradigm Shift in Retail Loans





Change Point Detection (CPD) problem discerns abrupt shifts (or paradigm shifts) in time series data that can be easily identified via the human eye, but it is challenging to pinpoint the exact time point (or points) without using any statistical approach. There are various CPD methods used worldwide and one of the popular choices, *Pruned Exact Linear Time (PELT),* has been adopted here. *R. Killick et al. (2012)* presented this method. The PELT algorithm is exact and under mild conditions has a computational cost that is linear in the number of data points. Also, PELT is more accurate than binary segmentation and faster as than other exact search methods. The change point has been detected by identifying the change in variances. There could be many change points in the series; however, it is tried to find out only two most significant points here.

Data from the annual publication *Basic Statistical Returns of Scheduled Commercial Banks in India* by RBI has been used in this section. The publication is available on annual frequency since the year 1972. The data is published as on March-end from 1990 onwards and as on December–end prior to that period.

Chart 3: Share of Retail Loans in Total Advances (%)

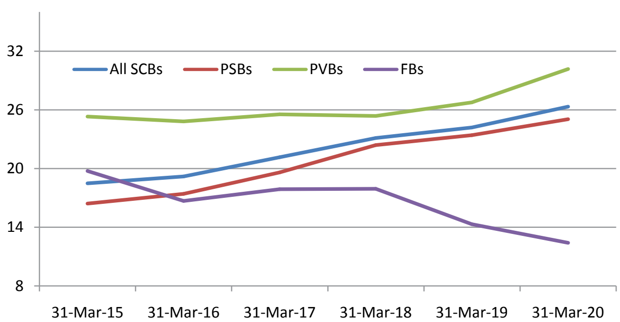
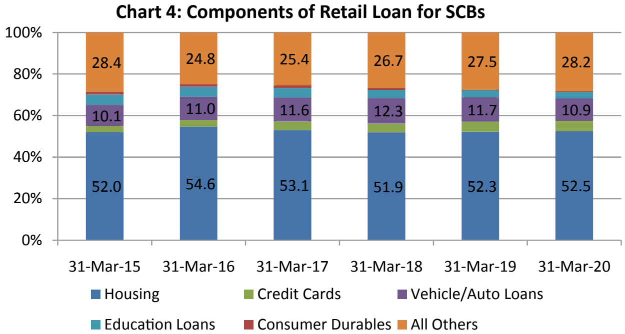


Chart 4: Components of Retail Loan for SCBs



Though the retail loan started to pick up significantly since the beginning of this new millennium, the first year of paradigm shift detected statistically is 2004 (*Chart 1*). The share of retail loans in total credit increased from 6.4% in 1990 to 20.3% in 2004 (*Table 1*). Observing the very strong growth of housing and consumer credit in 2004, RBI decided to put in place temporary counter cyclical and risk containment measures and subsequently increased the risk weight from 50 per cent to 75 per cent in the case of housing loans and from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards. This slowed down the pace of retail loan growth to some extent and the share of retail loan slightly moderated to 16.4% in 2011. After that, it started to pick-up again and the second and most significant year of the paradigm shift detected statistically is 2011. The published BSR data is as on March-2011. *Standard Deviation (SD)* of the data prior and after this point is statistically different. The SD prior to 2011 is 1.6 lakh crore and from 2011 onwards it is 5.1 lakh crore. The time point, March-2011, is slightly more than two years since the global financial crisis of 2008 ended. Many people who lost jobs during or immediately after the crisis, probably regained the jobs by then and the confidence into the economy started to come back again. Moreover, the interest rates charged by banks continued to reduce during this period *(Chart 2)*. Cheaper rates also pushed customer to avail more retail loans.

4. Various Components of Retail Loans

The data used here onwards are sourced from off-site returns collected by RBI. The data from March-2015 to March-2020 have been utilized in the analysis. The share of retail loan in total advances has been continuously increasing since last few years and stood at 26.3% as on March-2020. More than one fourth of the total bank credit is going now to retail sector (*Chart* 3). During the FY 2018-19, the retail credit of Private Sector Banks (PVBs) expanded by whooping 35% against overall credit growth of 26% for PVBs. Though, PVBs' retail portfolio has been growing at much higher speed than Public Sector Banks (PSBs) since last few years, it is evident that all categories of banks have turned their focus on retail loans especially since last decade except the Foreign Banks (FBs). Surprisingly, FBs' retail loan growth trend has been opposite compared to PSBs and PVBs. FBs have shifted their focus from retail loans since last few years.

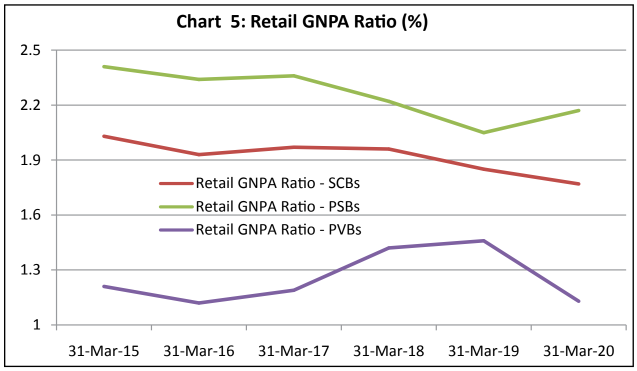
After a close glance at the detailed components of retail loans, it is found that *Housing Loans* comprise of more than half of the retail loans portfolio for Scheduled Commercial Banks (around 52%, *Chart 4*) as well as PSBs (around 56%, *Annex Chart 7*). Private Banks also disburses nearly half (around 48%) of the retail loans as housing loans though its share has been diminishing since last few years because of more focus given by PVBs towards *Credit Cards (Annex Chart 8*). The share of Credit Cards for PVBs is 10.3% as on March-2020 compared to almost negligible share for PSBs (0.2%). However, it may be mentioned that SBI is the only major player in the credit card industry from PSBs and it carry out its business though subsidiary *SBI Cards*, hence, not included in the bank's book here. All other PSBs are relatively new to the credit card industry compared to PVBs and Foreign Banks. FBs' share of credit cards in retail loans is 4.1% as on March-2020.

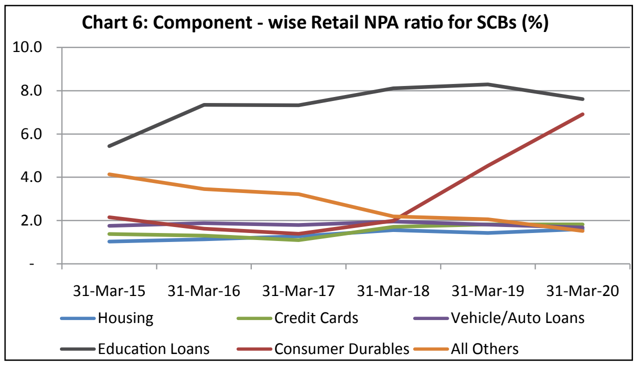
After the *Housing Loans*, the significant share is witnessed by *'All Others'* category which may be termed as miscellaneous types loans not captured as a standard category in the off-site returns. It comprises of gold loan, wedding loan, travel loan, medical loan, advance against fixed deposits, shares, bonds etc. Share of these kind of loans is more or less stable since last few years and consists of more than one fourth (around 27%) of total retail portfolio for Scheduled Commercial Banks (SCBs), PSBs as well as PVBs.

Vehicle/Auto Loan's share is the next highest in retail loans. For PSBs, the share hovers around 9% to 10% and for PVBs, 14% to 16%. Share of *Education Loan* is negligible (less than 1%) for PVBs but it is moderately significant for PSBs, though its share reduced from 7.4% to of 4.9% in last five years. The share of *Consumer Durable Loans* is not significant (less than 1%) for both PSBs and PVBs.

5. Retail NPAs

Since many years, asset quality in *Retail Sector* has always been compared to other sectors e.g. Agriculture, Industry, and Services etc. Gross NPA ratio of retail loans continuously declined from 2.03% in 2015 to 1.77% in 2020 *(Chart 5).* The period of *Asset Quality Review (AQR)*, initiated by Reserve Bank of India during 2015-2016, witnessed major increase in GNPA ratio from 2015 to 2018 in Industry Sector and moderate increase in Agriculture and Services Sector but Retail Sector was unhurt and GNPA ratio continued to fall in this period also. During the three years period (2015-2018), GNPA ratio of Industry Sector shoot-up by 1495 basis points (bps), for Agriculture and Services sectors, it elevated by 324 bps and 61 bps respectively. On the other hand, GNPA ratio of retail sector improved by 7 bps during the same period. As on March-2020, the GNPA ratios of Industry, Agriculture, Services and Retail Sectors are 13.60%, 10.33%, 7.47% and 1.77% respectively.





PVBs have better managed the retail loans compared to PSBs and its GNPA ratio floated around 1.2%-1.4% since 2015 whereas for PSBs, it declined from 2.41% in 2015 to 2.17% in 2020.

GDP is a metric that captures aggregate output and '*per capita GDP'* may be considered as a proxy for standard of living. India's GDP growth in 2016 was 8.26% at constant prices with base year 2011-12. Since then the economy has been slowing down due to combination of the cyclical and structural factors, which include corporate deleveraging and asset quality drag on bank balance sheets besides temporary supply side disruption from demonetisation and GST. GDP growth slowed down to 7.0% in 2017-18, 6.1% in 2018-19 and 4.2% in 2019-20. Gross National Income (GNI) is the measure of total amount of money earned by a nation's people and businesses. GNI growth of India reduced from

8.27% in 2016 to 7.12% in 2017 and further to 6.14% in 2018. . So, relatively low GNI should have possibly affected repayment of retail loans. However, NPA of retail loans were not affected due to above factors, rather, GNPA ratio remained almost at same level of 1.96% in March-2018 compared to 1.93% in March-2016 and reduced to 1.85% in March-2019.

5.1 Education Loan

Component-wise splitting suggests that the GNPA ratio of Education Loan has always been much higher than other categories of retail loans *(Chart 6)*, for both PSBs as well as PVBs. In 2019, the GNPA ratio of Education Loans reached its peak at 8.2% for PSBs and then moderated to 7.7% in 2020. For PVBs, it reached at peak in 2018 at 11.8% then fell sharply to 6.4% in next two years *(Annex Charts 9 and 10)*. The Y-o-Y growth of Gross NPAs in education is also declining since 2018 for both PSBs as well as PVBs (*Annex Charts 11 and 12).*

The share of *Education Loans* for PVBs is very less (around 0.6%), so high NPA ratio should not be much worrisome for PVBs*.* The share of PSBs is relatively significant (4.9% in 2020), though it is declining since 2015 (7.4%). Possibly, highest GNPA ratio in this category forces the banks to focus on other kind of retail loans.

Education Loans have its own social significance especially in a developing country like India. The education of their children is a critical goal for almost all Indian parents. It is possibly the only way for middle to lower income group children to establish them. There are various Education Loan schemes under *Ministry of Social Justice and Empowerment* and *Ministry of Human Resource Development (MHRD), Government of India* to provide educational loans to the targeted groups of students from weaker sections. For example, MHRD launched a Scheme titled *"Central Sector Interest Subsidy Scheme" (CSIS*) in 2009 and it was last modified with the approval of the Cabinet in March-2018. The scheme provides full interest subsidy during the moratorium period on modern education loans without any collateral security and third-party guarantee, for pursuing technical/professional courses in India.

It is evident that these social obligations are mainly fulfilled by PSBs compared to PVBs as Government has less control over its private peers. Nevertheless, relatively high GNPA should not deter banks to take some risk in this area as this has its own significance in the society, rather, it might be better managed by the banks. For example, courses with higher chances of employment might be on focus or domestic courses might be given priority over foreign courses (if it is difficult to trace a student in other country). Reduction in GNPA growth in education since last two years possibly indicates that banks are already working on the similar lines.

Banks are required to disburse loans to priority sectors to fulfill the regulatory targets. Incidentally, loans to individuals for educational purposes including vocational courses (upto ₹10 lakh) irrespective of the sanctioned amount are eligible for classification under priority sector. Approximately 79% of outstanding amount under education loans are classified as priority sector (79.2% for PSBs and 73.0% for PVBs) as on March-2020. The GNPA ratio of *Education Loans (priority)* is higher at 9.3% compared to 7.6% for overall education loans. Similar trend is observed in both PSBs and PVBs; 9.4% and 8.5% respectively for priority sector compared to overall 7.7% and 6.4%.

5.2 Housing Loan

The largest chunk of retail loans goes to another sector with social significance - *Housing*. NPAs in this sector have been relatively lower compared to other retail loan categories, though it has been continuously increasing since last few years. GNPA ratio increased from 1.1% in 2015 to 2.0% in 2020 for PSBs and for PVBs, from 0.6% to 0.9%. Looking into the Y-o-Y growth of GNPA amount, the growth for housing GNPAs has been among the highest since last few years for PSBs (on an average around 30%). The growth for PVBs also has been in the similar range as PSBs; however, they managed to reduce it slightly since last two years (*Annex Charts 11 and 12).*

One of the major reasons for low NPA is the nature of housing loans, it is secured. Houses/properties purchased through loans are mortgaged to the lender until the amount is repaid. Being mortgages, consumers get it at relatively cheaper interest rates, durations are also comfortable, and one gets a tax benefit. Thus, the borrowers also definitely try hard to repay the loan in time and not to lose control of the home where they stay. Though, banks need to be careful while disbursing housing loan as purely investment instrument and considering its value as mortgage. Because this led to housing bubble in US and resulted in subprime mortgage crisis in 2008.

Alike *Education Loans*, *Housing Loans* are also considered under priority sector classification. Affordable housing has been on the agenda of the Government for many years. Loans to individuals upto ₹35 lakh in metropolitan region and upto ₹25 lakh elsewhere is considered as priority sector loans as per regulatory guidelines with a cap at the unit price at ₹45 lakh and ₹30 lakh respectively. Approximately 36% of outstanding amount under housing loans are classified as priority sector (40.5% for PSBs and 27.8% for PVBs) as on March-2020. The GNPA ratio of *Housing Loans (priority)* is higher at 1.9% compared to 1.6% for overall education loans. Similar trend is observed in both PSBs and PVBs; 2.2% and 1.3% respectively for priority sector compared to overall 2.0% and 0.9%.

5.3 Vehicle/Auto Loan

The GNPA ratio of *Vehicle Loans* hovered around 2.2% since last few years for PSBs and floated around 1.4% for PVBs. Similar to housing loans, vehicles purchased through loans are also remain mortgaged to the lender until the amount is repaid. The Y-o-Y GNPA amount growth for PVBs was 76.7% in 2018 in vehicle loans which they managed to convert to a reduction by 12.6% in 2020.

5.4 Credit Cards

This is the dearest form of unsecured loans where annual interest rate may vary from 30% to 50%. The GNPA ratio of *Credit Cards* which was around 2.7% since last few years for PSBs suddenly surged to 6.5% in 2020. But since the share of outstanding amount is almost negligible (0.2%), it should not be matter of anxiety for PSBs. With the increasing focus of PVBs on credit cards, they also managed the NPA part well and it floated around 1.3% since last few years. The share of credit card outstanding in retail loans increased from 6.6% in 2015 to 10.3% in 2020 for PVBs and GNPA ratio increased only to 1.7% from 1.1% during the same period. The Y-o-Y GNPA amount growth for PVBs was 162.3% in 2018 in credit cards which they managed to restrain to 22.2% in 2020.

Table 2: Risk Weights for Housing Loans

Criteria	Risk Weight
Upto ₹30 lakh and LTV Ratio less than or equal to 80%	35%
Upto ₹30 lakh and LTV Ratio greater than 80% but less than or equal to 90 %	50%
Above ₹30 lakh and upto ₹75 lakh and LTV Ratio less than or equal to 75%	35%
Above ₹30 lakh and upto ₹75 lakh and LTV Ratio greater 75 % but less than or equal to 80%	50%
Above ₹75 lakh and LTV Ratio less than or equal to 75%	50%
Above ₹75 lakh and LTV Ratio less than or equal to 75%	75%
All other claims secured by residential property	100%

5.5 Consumer Durables

The GNPA ratio for *Consumer Durables*, which was around 1.8% upto 2018, elevated to 4.5% in 2019 then further to 6.9% in 2020 for all SCBs. For PVBs, the lion's share of increase in GNPA has been witnessed during 2019-20. Suddenly the GNPA amount swelled by 338.2% during last financial year and GNPA ratio inclined from 2.5% to 9.6%. However, the share of consumer durables (less than 0.7%) for both PSBs and PVBs does not create much concern for them.

5.6 Other Retail Loans

The GNPA ratio in this category has been continuously declining from 2015 (4.1%) to 2020 (1.5%) for SCBs. Similar trend is observed for both PSBs and PVBs.

6. Risk Weights of Retail Loans

Risk weights of various categories of assets of banks are decided by RBI guidelines *"Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF)"* and its updates time-to-time. Risk weights are very important from the bank's point of view as it calls for the capital required to be maintained as per regulatory guidelines.

Education Loans are considered as part of *Regulatory Retail* portfolio which draws standard risk weight of 75%. The risk weight of *Housing Loans* depends upon size of the loan and Loan to Value (LTV) ratio. It varies between 35% and 100% under various scenarios as given in *Table-2*. All other retail loans excluding credit cards carry risk weight of 100% and Credit Cards' risk is weighted as 125% unless warranted by an external rating of the counter-party.

The risk weights of corporate borrowers are provided as per its external ratings. The weights are 20% (AAA), 30% (AA), 50% (A), BBB (100%), 150% (BB and below) and 100% for unrated claims. Also, all unrated claims on corporates, Asset Finance Companies (AFCs), and Infrastructure Finance Companies (NBFC-IFCs) having aggregate exposure from banking system of more than ₹200 crore attracts a risk weight of 150%. Moreover, claims on corporates, AFCs, and NBFC-IFCs having aggregate exposure from banking system of more than INR 100 crore which were rated earlier and subsequently have become unrated also attracts risk weight of 150%.

The GNPA ratio of corporate sector is much higher than retail loans since last few years. Additionally, on an average, risk weights of retail loans are less than corporate loans with rating BBB and below as well as unrated claims. Thus it is apparent that banks are leaning more towards retail loans since last few years. As far as corporate loans with ratings A and above are concerned, though their risk weights are less than retail loans, *Singh and Chavan (2020)* showed that the external rating does not always reflect underlying asset quality in timely manner. It is mentioned that 12% of total GNPA amount belongs to *Investment Grade* borrowers as per March-2018 data. Consequently it might be logical if banks think that investing in retail loans are better option now than funding the corporates.

7. Granger Causality

Behind banks' fondness towards retail loans, the lower NPA in this category is possibly one of the reasons amidst other reasons like demand for industrial credit has fallen due to deleveraging. This may be tested using the granger causality test. The two considered variables here are – (i) *Share of Retail Loans in Total Advances* and (ii) *GNPA ratio of non-retail category of loans*. As the changepoint detected in the time series data is the year 2011, quarterly off-site data starting from March-2011 to March-2020 has been used in this exercise. During this period the share of retail loans increased from 18.3% to 26.3% and GNPA ratio of non-retail loans increased from 2.16% to 10.66%. The correlation between the two series is 0.83.

The Granger Causality test is a statistical hypothesis test for determining whether one time series variable is useful for forecasting another one. The null hypothesis is "*The variable x does not granger cause the variable y*". If probability value is less than any significance level, then the hypothesis is rejected at that level. As the causality test is actually based on estimating OLS regression model in the background, it is assumed that minimum 30 observations are required to get moderately reliable result. There are total 37 data points in retail loan data for the period under consideration.

The hypothesis test of "*GNPA ratio in non-retail category of loans* does not granger cause *Share of Retail Loans in Total Advances."* is rejected at 5% significance level with the lag 1. The hypothesis is accepted for higher lags. Thus, it may be inferred that asset quality of non-retail loans in any quarter is one of the causes of increase in share of retail loans in the next quarter (with lag one).

8. Concluding Remarks

Retail Loans, which were earlier insignificant in bank's book, started to gain momentum post liberalisation period (1990). The years 2004 and 2011 are identified as the two most significant points of paradigm shift in the scenario of consumer credit. These are spotted as the most significant change point in the timeline stating from 1972, by the statistical changepoints delectation method *PELT*.

Asset quality in retail loans are the best among other sectors *viz*. Agriculture, Industry and Services. The GNPA ratio of retail sector was unharmed by the *Asset Quality Review* exercise initiated by RBI during 2015-16. Asset quality issues have not risen in the retail credit space despite sharp slowdown affecting personal disposable incomes.

Component wise, consumer credit, education loans are the most stressed ones with GNPA ratio of 7.6% as on March-2020. But PVBs' share of education loan in total retail loan in negligible (0.6%), however, the share for PSBs is relatively significant (4.9%) as on March-2020. Due to high GNPA, the PSBs have started restricting education loans since last few years and its share in total retail loans decreased from 7.4% in 2016 to 4.9% in 2020. *Housing Loans* constitute almost half of total retail portfolio and having least GNPA ratio (less than 2%) among its peers since last few years. Both *Education and Housing Loans* are part of priority sector portfolio of banks with some size restrictions and it is observed that GNPA ratio of the priority part is relatively higher than the non-priority section. GNPA ratio in other kinds of retail loans are relatively low and hover around 2% since last few years.

Though, in general, GNPA ratio is less in retail loans, PVBs manage their portfolio better than PSBs. Asset quality is better in PVBs in all types of retail loans for past few years.

It is also evident that the share of retail loans is increasing continuously since last decade. Investing in retail loan has become lucrative for banks from both the fronts – *Asset Quality* as well as *Risk Weighted Assets.* Already the share of retail loans in total advances has increased to 26.3% in 2020. It is to be seen that how far the country can accommodate the growth of retail loans. It reflects the increase in demand side of the economy. The retail loans are used to purchase ready products, which also indirectly helps the manufacturing, services, construction etc. However, direct lending to those sectors helps to push the supply side.

Despite better asset quality in general, retail loans has shown intermittent signs of stress time-to-time for few categories. For example, GNPA amount in consumer durables increased by 338.2% for PVBs during 2019-20, credit cards now hold significant share for private banks (10.3%) but its GNPA suddenly increased by 114.6% during 2017-18. For PSBs, GNPA amount in housing loans increased by 44.4% during 2017-18 and again by 33.1% during 2019-20. Hence, it is imperative that banks need to be prudent and due diligence need to be followed while disbursing retail credit also.

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Annex

Chart 7: Components of Retail Loan for PSBs

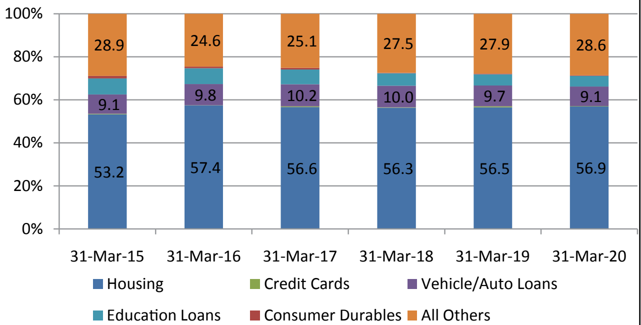

Chart 8: Components of Retail Loan for PVBs

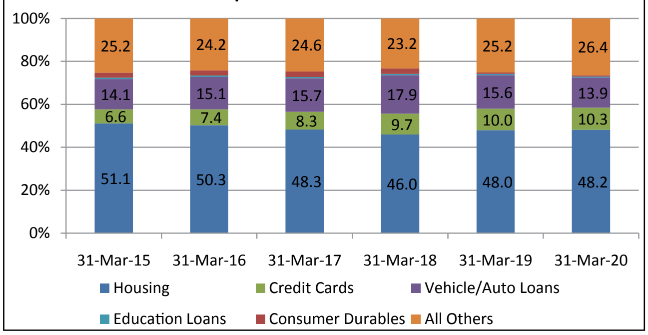

Chart 9: Component - wise Retail NPA ratio for PSBs(%)

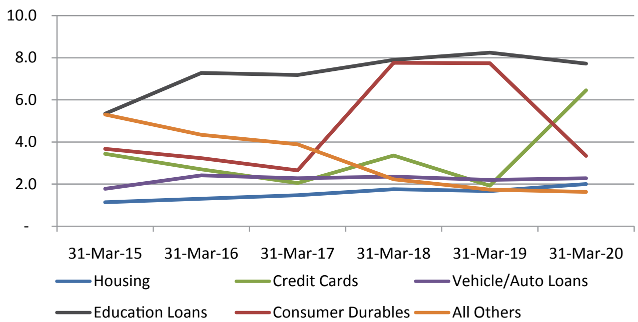

Chart 10: Component - wise Retail NPA ratio for PVBs(%)

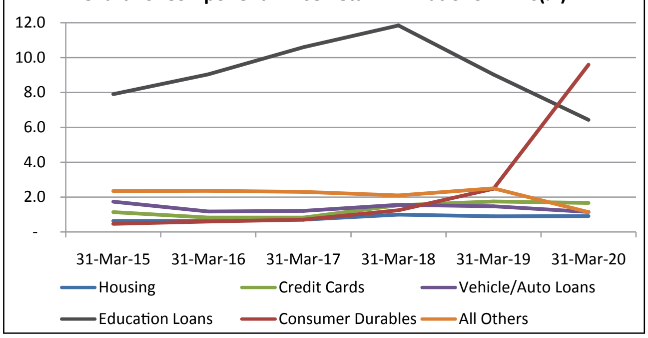

Chart 11: Retail NPA growth for PSBs (%)

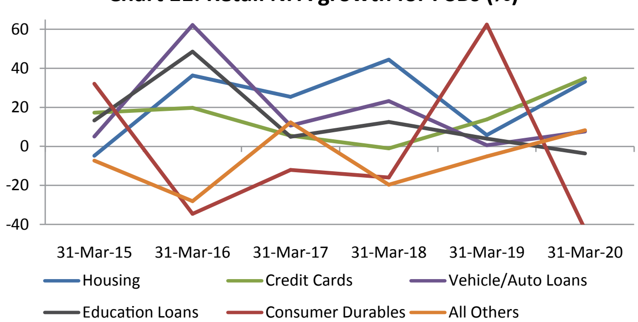

Chart 12: Retail NPA growth for PVBs (%)