

An Overview of Personal Indebtedness in India



The map describes median household debt per district of rural India, sourced from the NSS 70th round

Key Indicators & Features

From the All India Debt & Investment Survey (2012)



Only informal loans

28% households reported an outstanding loan, but only 16% households reported loans from a formal institution.

On average, borrower household reported 2 outstanding loans, and **Rs. 1,02,000** total outstanding debt.

No loans

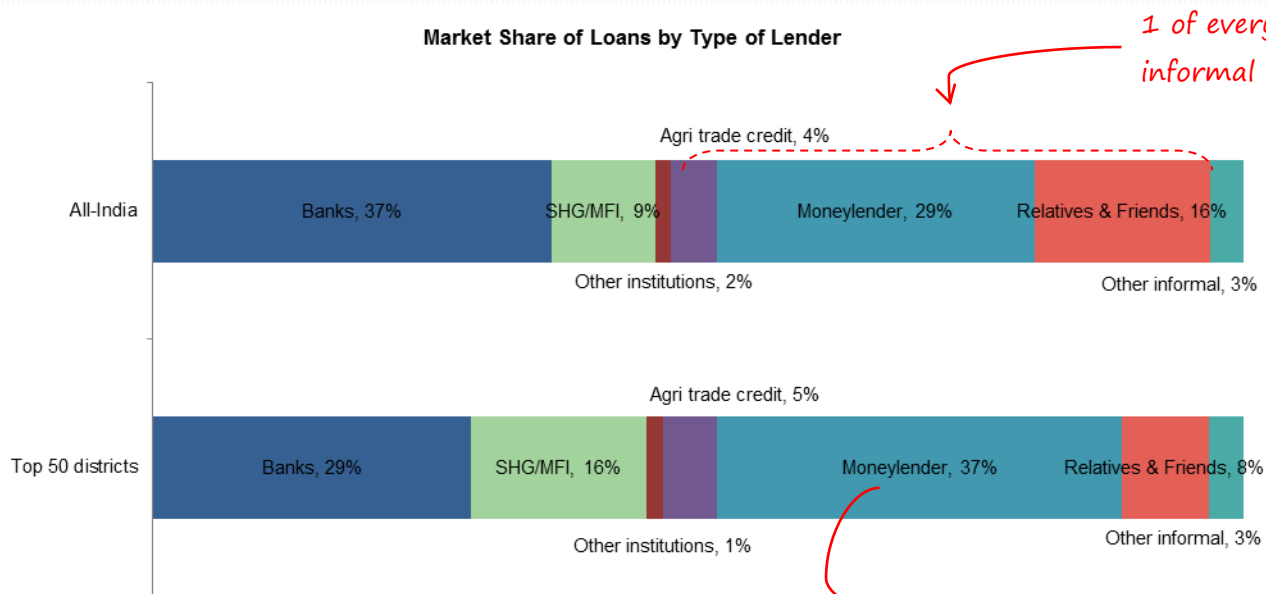
In the top 50 districts by incidence of indebtedness, 36% households reported formal loans while **56%** households reported outstanding credit from either source.



Key Indicators & Features

From the All India Debt & Investment Survey (2012)

Market Share of Loans by Type of Lender



1 of every 2 loans was made by an informal source

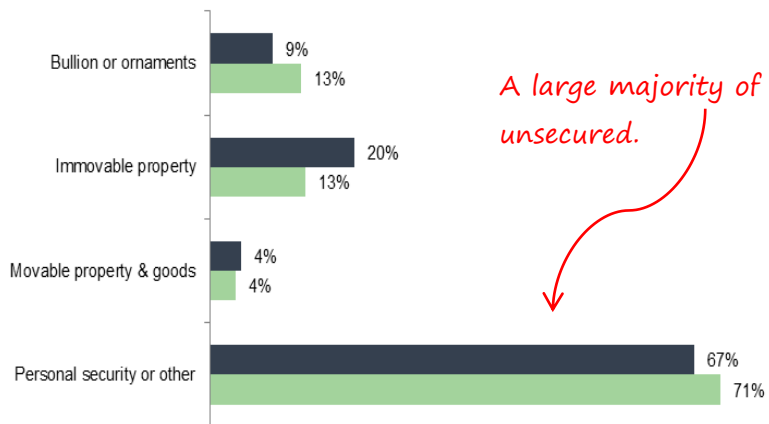
In the top 50 districts by indebtedness, credit from moneylenders held the largest market share, but not higher than all formal institutions combined.

Key Indicators & Features

From the All India Debt & Investment Survey (2012)

Use of Collateral

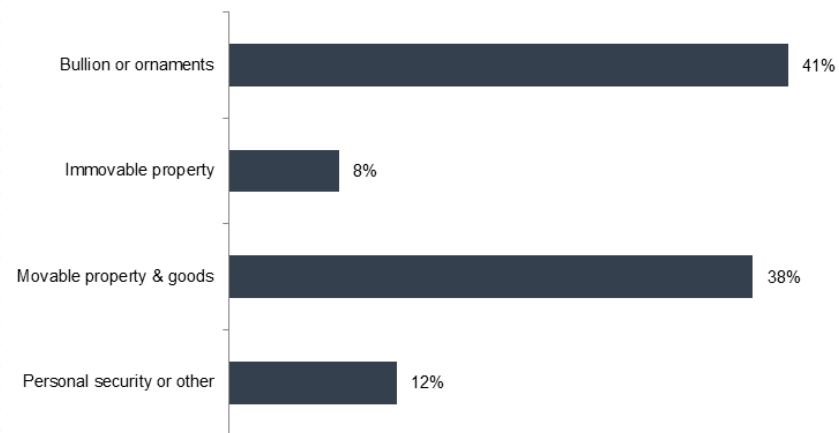
■ All-India ■ Top 50 districts



A large majority of lending is unsecured.

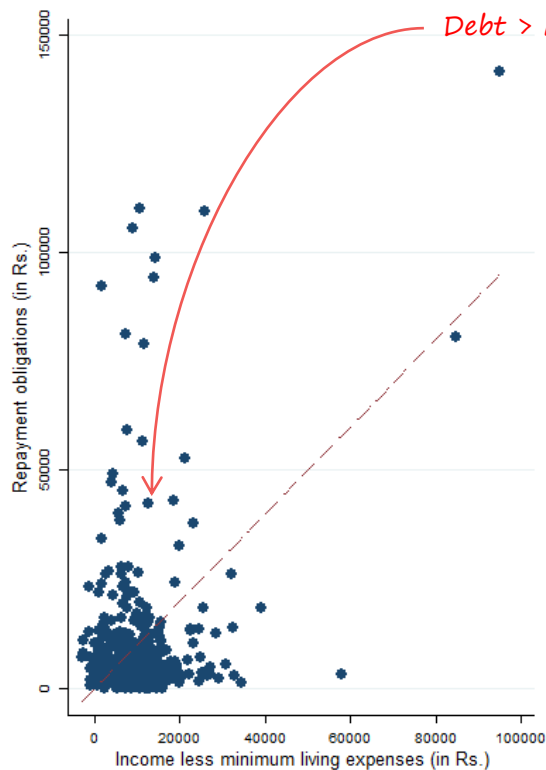


Use of Collateral, Institutional loans only



The Repayment Experience

Findings from a year-long study of 400 low-income households in rural Krishnagiri



We find that at least **12%** households in the sample carried more debt than they could reasonably afford while also preserving a bare minimum living standard (often does not include school fees, medical check-ups and many essential consumer expenses).

Of those carrying unaffordable levels of debt, only ~1% self-reported continuous delinquency on repayments. Many instead seemed to borrow to meet repayments on-time or close a loan.

18% households borrowed to repay at least once during the past 6 months



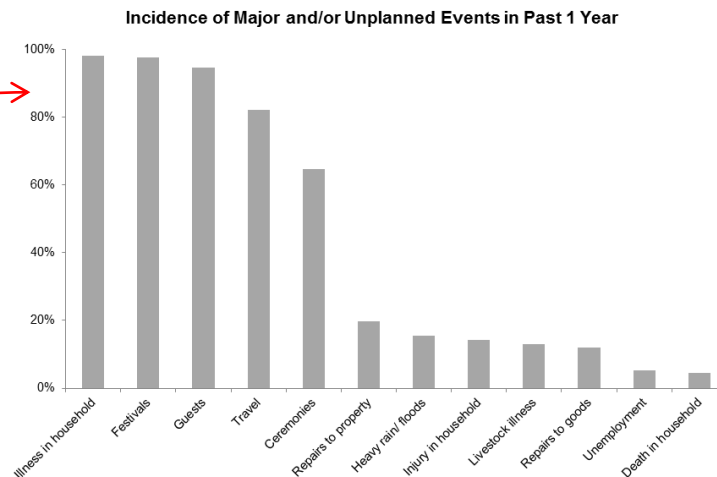
Sources of Debt-related Distress

Findings from a year-long study of 400 low-income households in rural Krishnagiri

1. Informality & Volatility of Cashflows

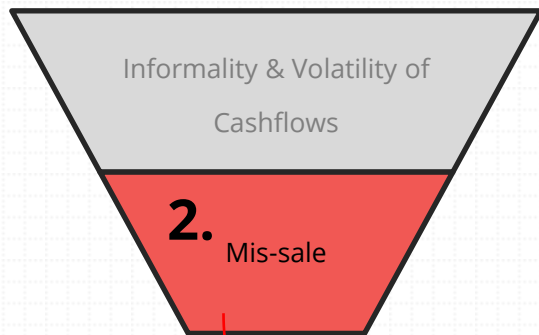
It is now well-documented that low-income households employ a variety of financial strategies (including multiple borrowing in the short-term) to smooth consumption, to build assets, and to tide over “shocks” and unexpected deficits. However, low-income households are also vulnerable to face shocks repeatedly, and at-risk to rapidly accumulate debt.

Nearly all households reported expenses incurred unexpectedly, and repeatedly over a year.



Sources of Debt-related Distress

Findings from a year-long study of 400 low-income households in rural Krishnagiri



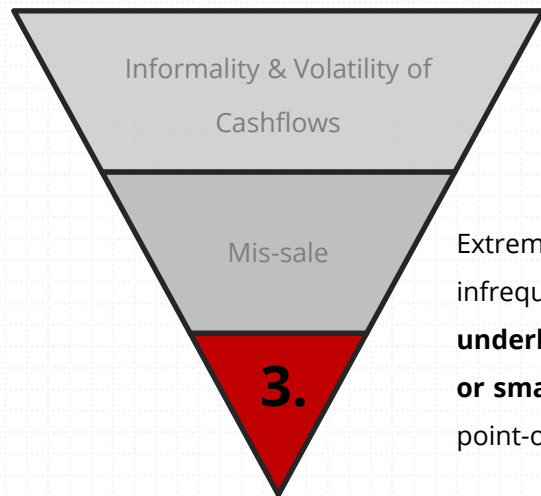
Credit contracts are deemed unsuitable if the customer will be unable to meet their payment obligations, either at all or only with substantial hardship.

Lenders are required to assess customers' actual or reasonably expected income, including whether the customer intends to repay wholly or partly from resources other than their income.

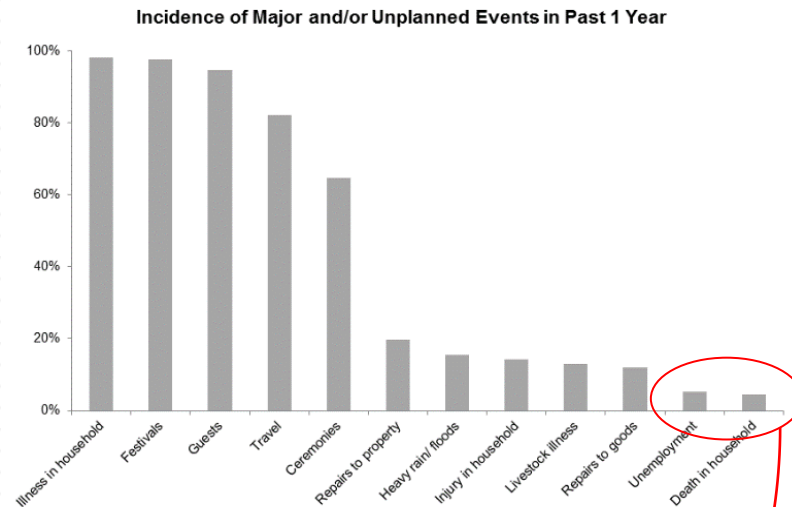
In our sample, we estimated that between 19 – 56% credit mis-sales could have been prevented using information available from borrowers at point-of-sale.

Sources of Debt-related Distress

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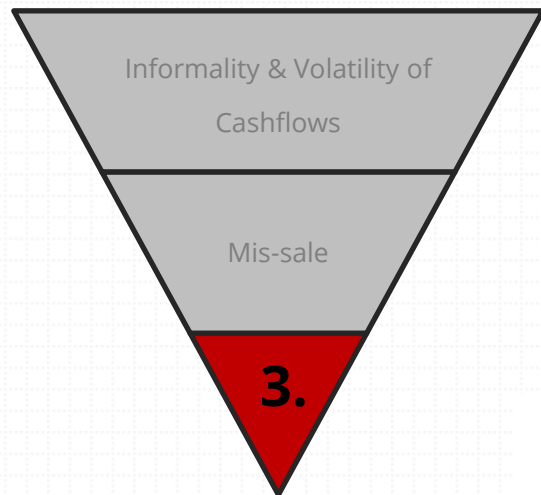
Extreme adverse events, though infrequent, fundamentally altered **underlying cashflows of households or small business** vs. those assessed at point-of-sale.



Events that significantly impact livelihoods occurred to less than 5% households in the past year

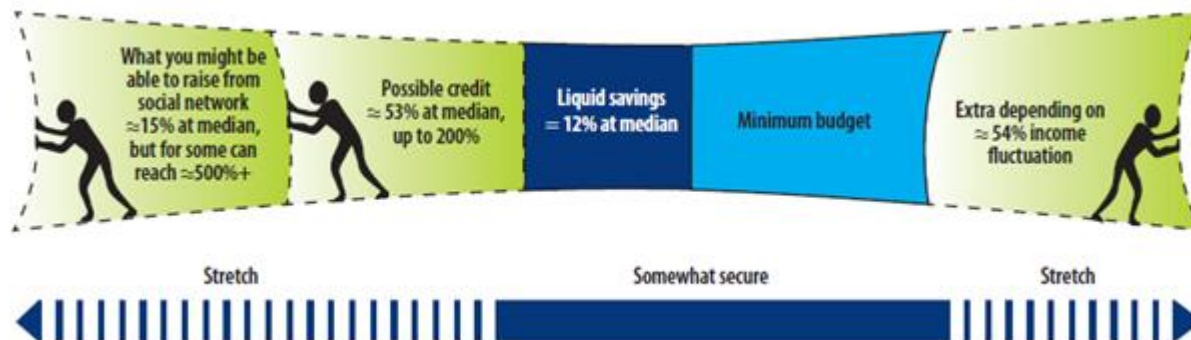
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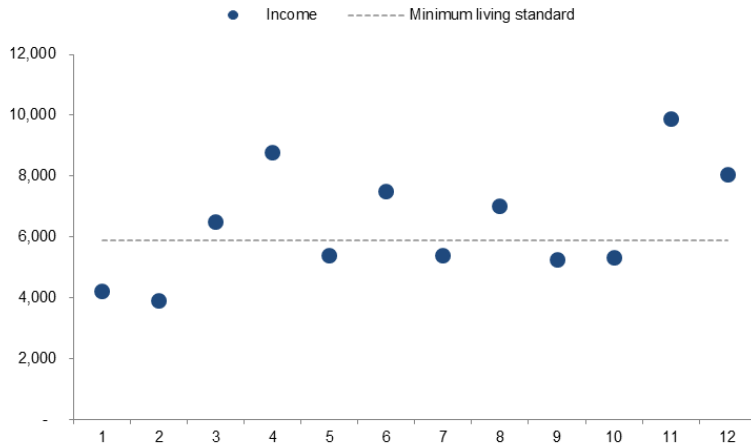
In the status quo, distressed borrowers either made expensive **sacrifices or adjustments** within their social or informal networks to raise additional resources, but preserve continued access to essential credit.

An illustration of budget elasticity



Source: Kenya Financial Diaries (2014)

Sarala & Vadivel



Sarala and Vadivel support a family of 6 through wage income earned through casual agricultural labour and NREGA work.

In the past year they reported servicing 20 loans, often “bicycling” through debt— only 5 loans were reportedly taken to meet expenses through the year (pay school fees, seek healthcare and smooth regular consumption), while 15 loans were used to service older loans.

It is unclear whether there will be opportunities in the next year to earn more income. Their ability to borrow from a number of sources is perhaps their most valuable financial asset at this time— seeking debt at the cost of losing access to either formal or informal sources may not be an option.

How can IBC help distressed borrowers?

Implications for borrowers

- Insolvency filing and resolution as a formalized alternative to adverse coping mechanisms/ inability to negotiate with multiple lenders
- Concerns around information and privacy
- Significant informality of borrowing, both as a cause and effect of debt distress. How does the IBC address this?
- Channels and mechanisms for early detection for targeted education and service delivery

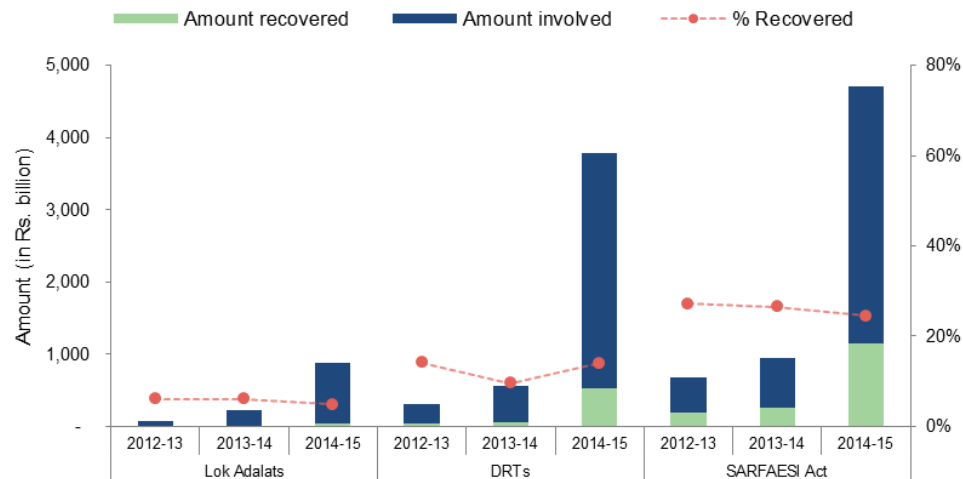
Implications for Lenders

- Need robust repayment capacity assessments before sale
- Impact on LGD and risk-pricing

Is there a need for ancillary infrastructure/services?

- Independent debt counselling / management/ consolidation services - are there linkages to IBC?

NPAs of SCBs Recovered through Various Channels



Recent expansion in the use of formal recovery mechanisms, but limited success.