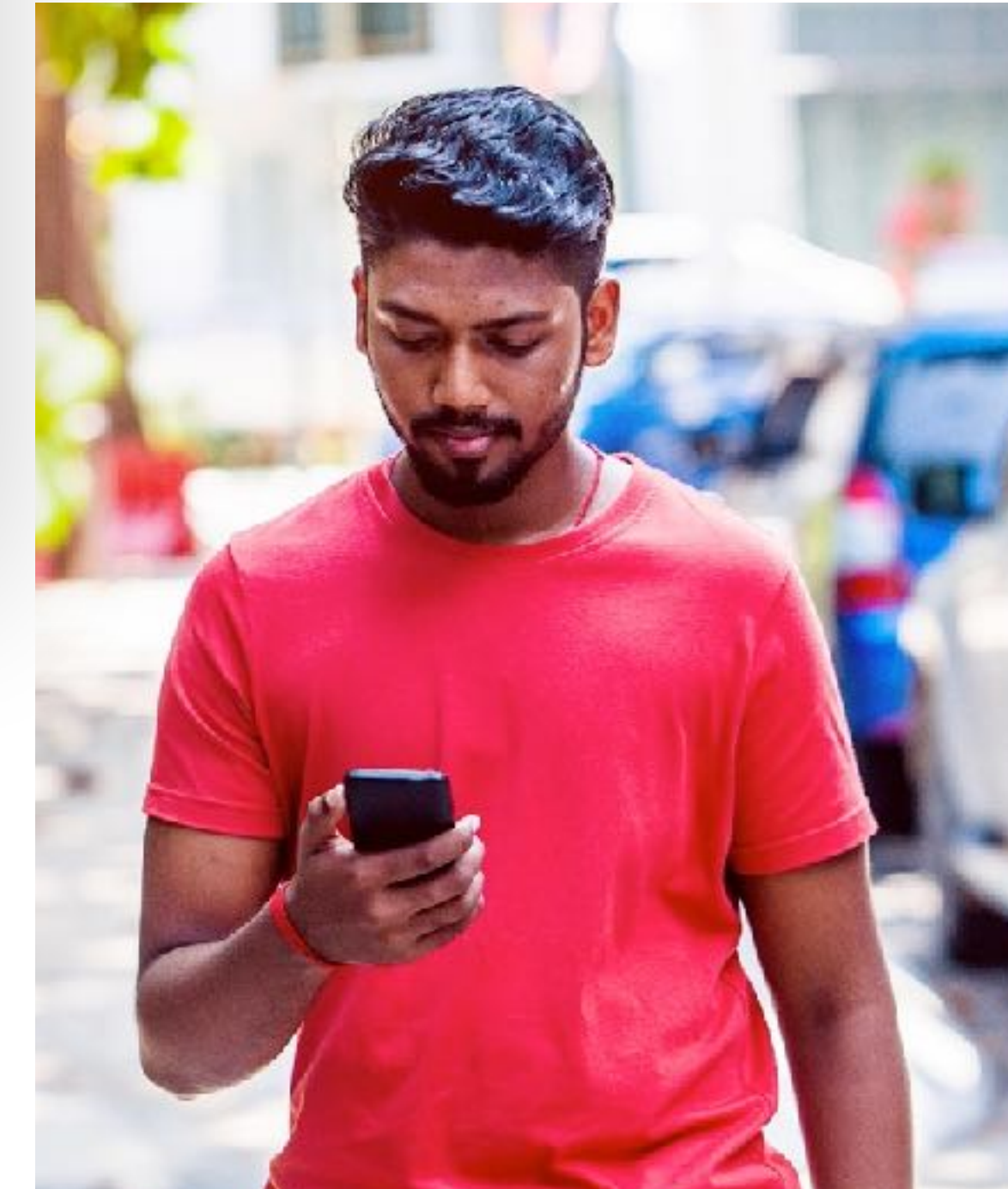


Credit Distributed

A thought paper on emerging themes
in the consumer credit space





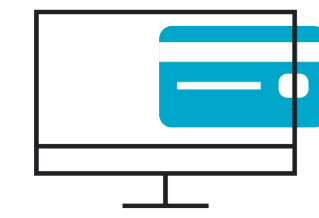
Prologue

The Indian consumer credit landscape has seen several changes over the past decade. From shifts in buyer patterns towards Banks and NBFCs based on end-use, to preferences for unsecured loans with the advent of small-ticket lending, to the usage of credit score risk models in underwriting assessment becoming the new normal.

This report further uncovers a key trend: **Credit Distributed**

This encompasses all aspects of profitable credit literally being “distributed” along multiple dimensions (ticket size, geography, complex multivariate segments and brand preferences). With such rapid nuanced disaggregation, Machine Learning and Smart Automation-led enablers are now a necessity for players to tap into these opportunities at scale.

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Digital - fuelling
the economy



Report findings



Business implications

Digital - fuelling the economy

**500
million**

Smartphone users¹

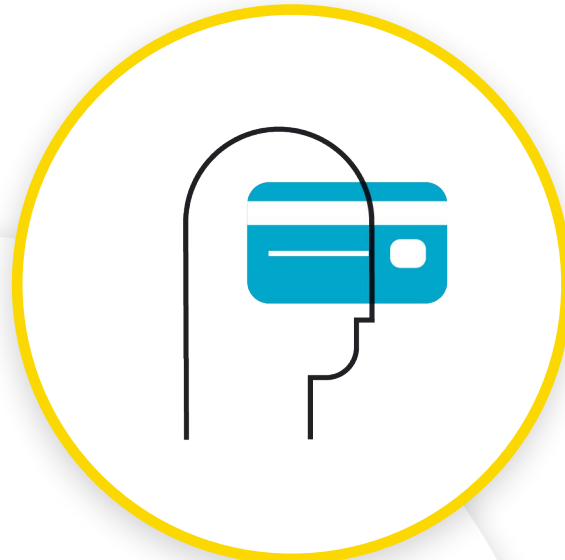
**622
million**

Internet users today²

**2nd
highest**

Internet user base³

Rapidly growing consumer credit markets



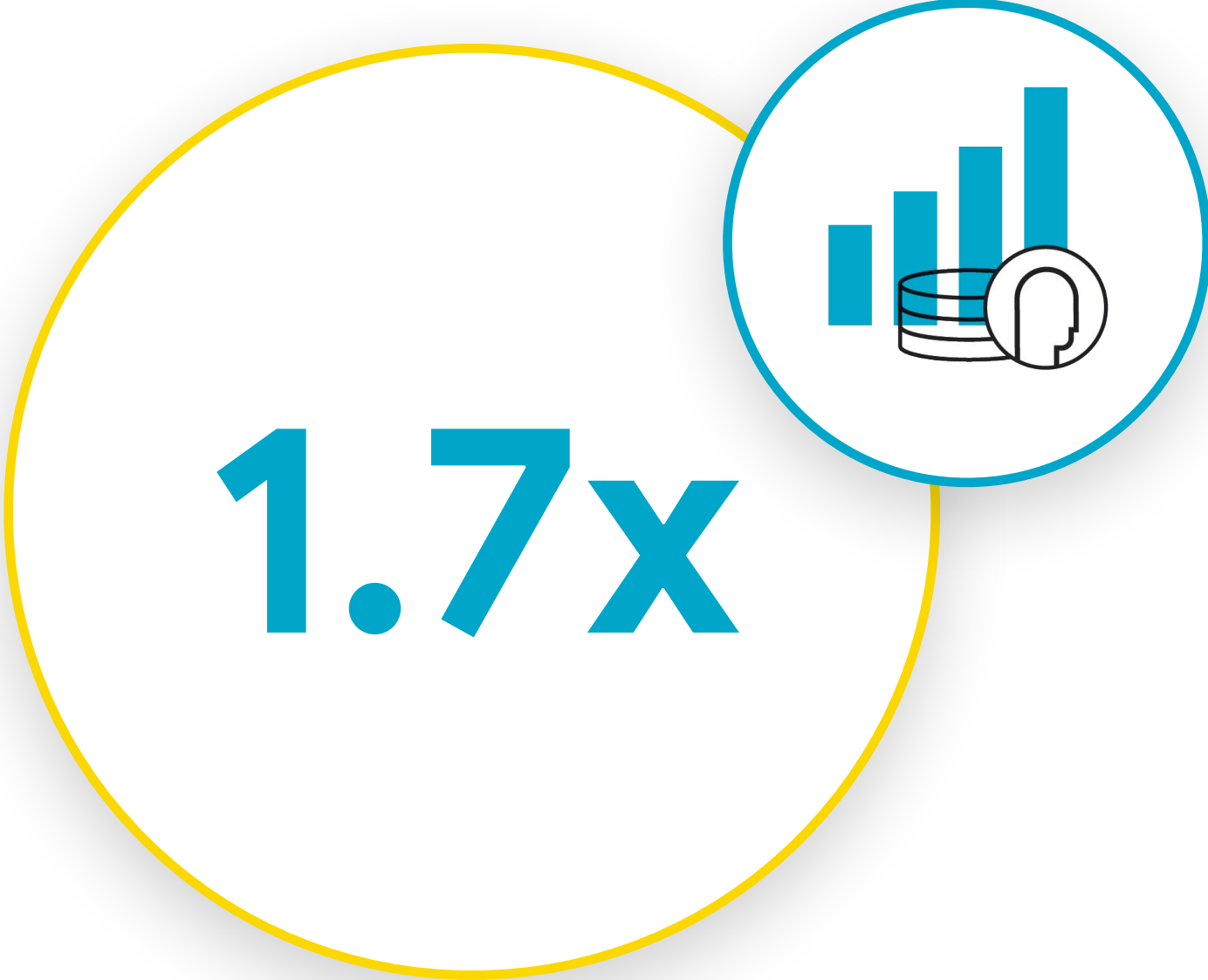
\$612 Bn

Retail credit industry
in Dec 2020

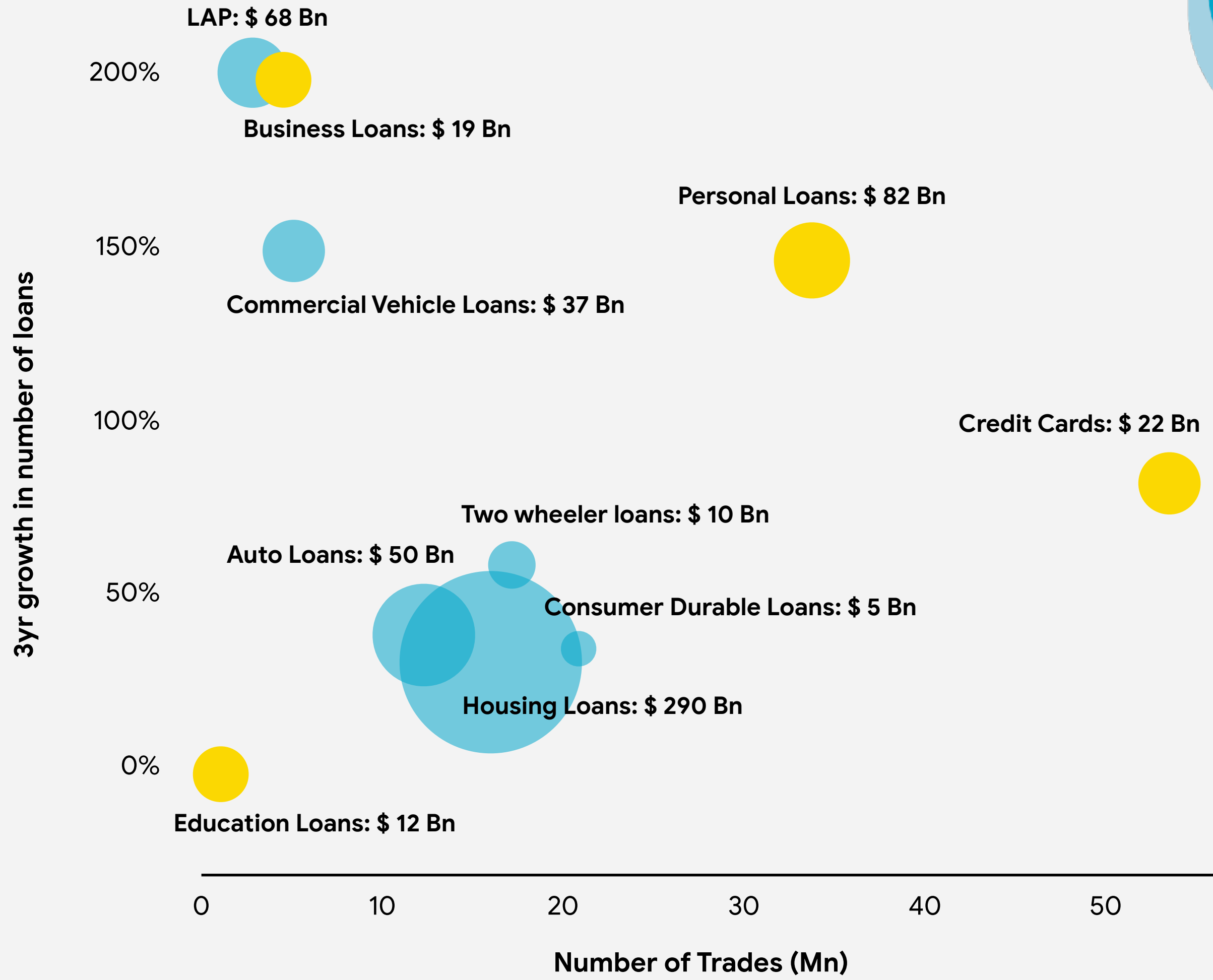
18%
3 year CAGR



Retail Loans nearly doubled since 2017



rise in active Retail Loans in 2020 vs 2017

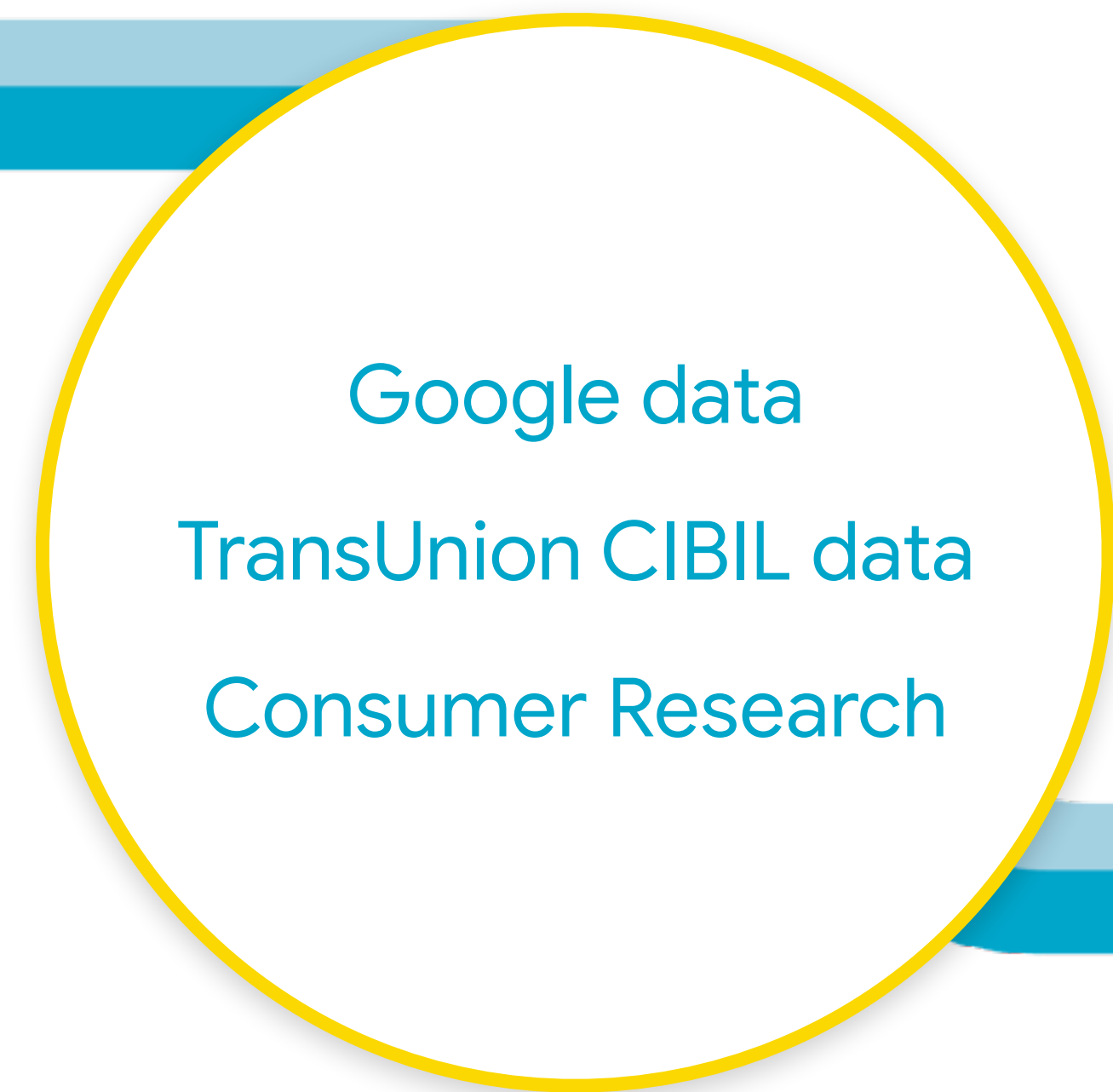


Our approach

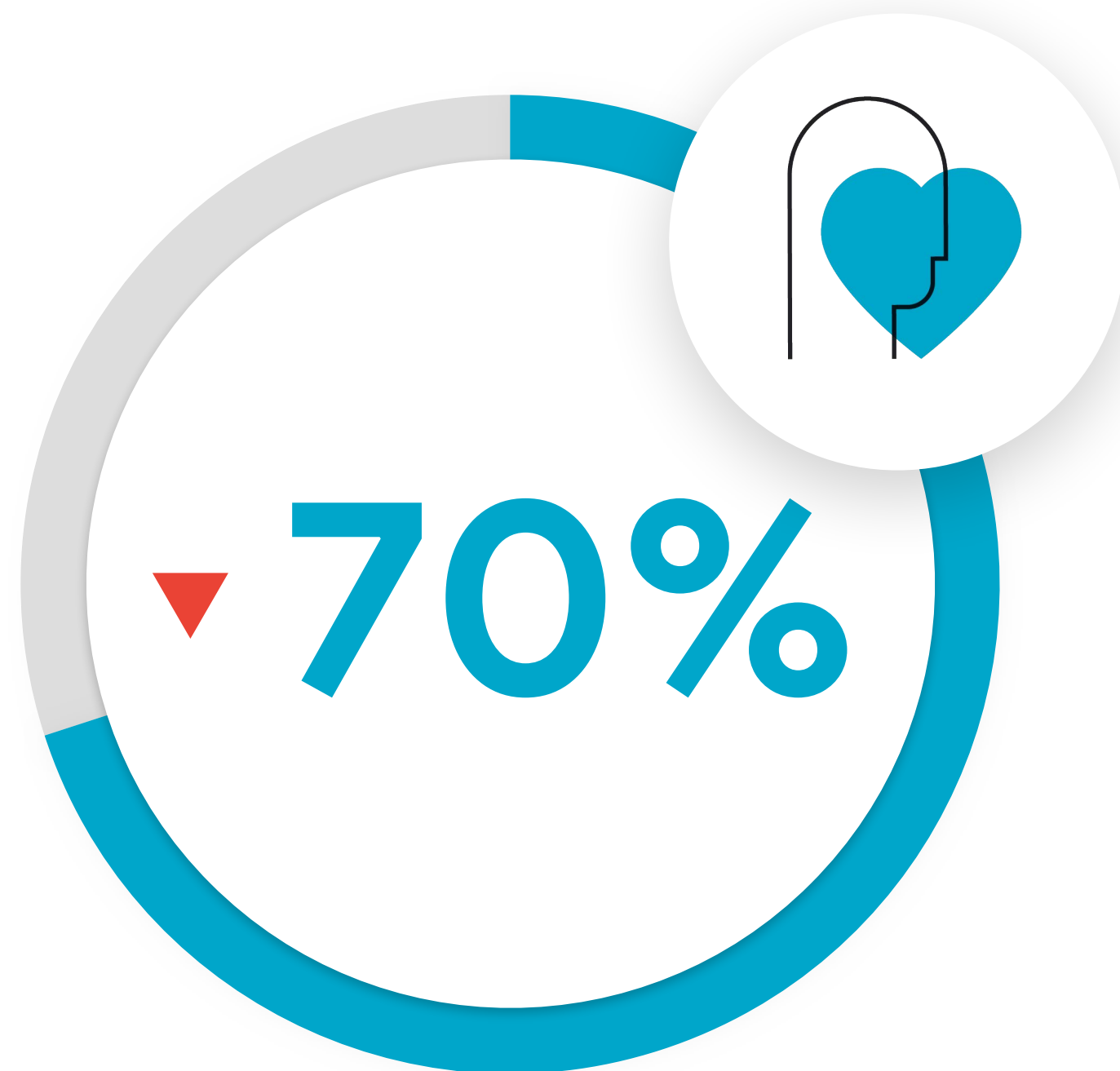
We studied **three key categories**:

- 1 Personal Loans
- 2 Auto Loans
- 3 Home Loans

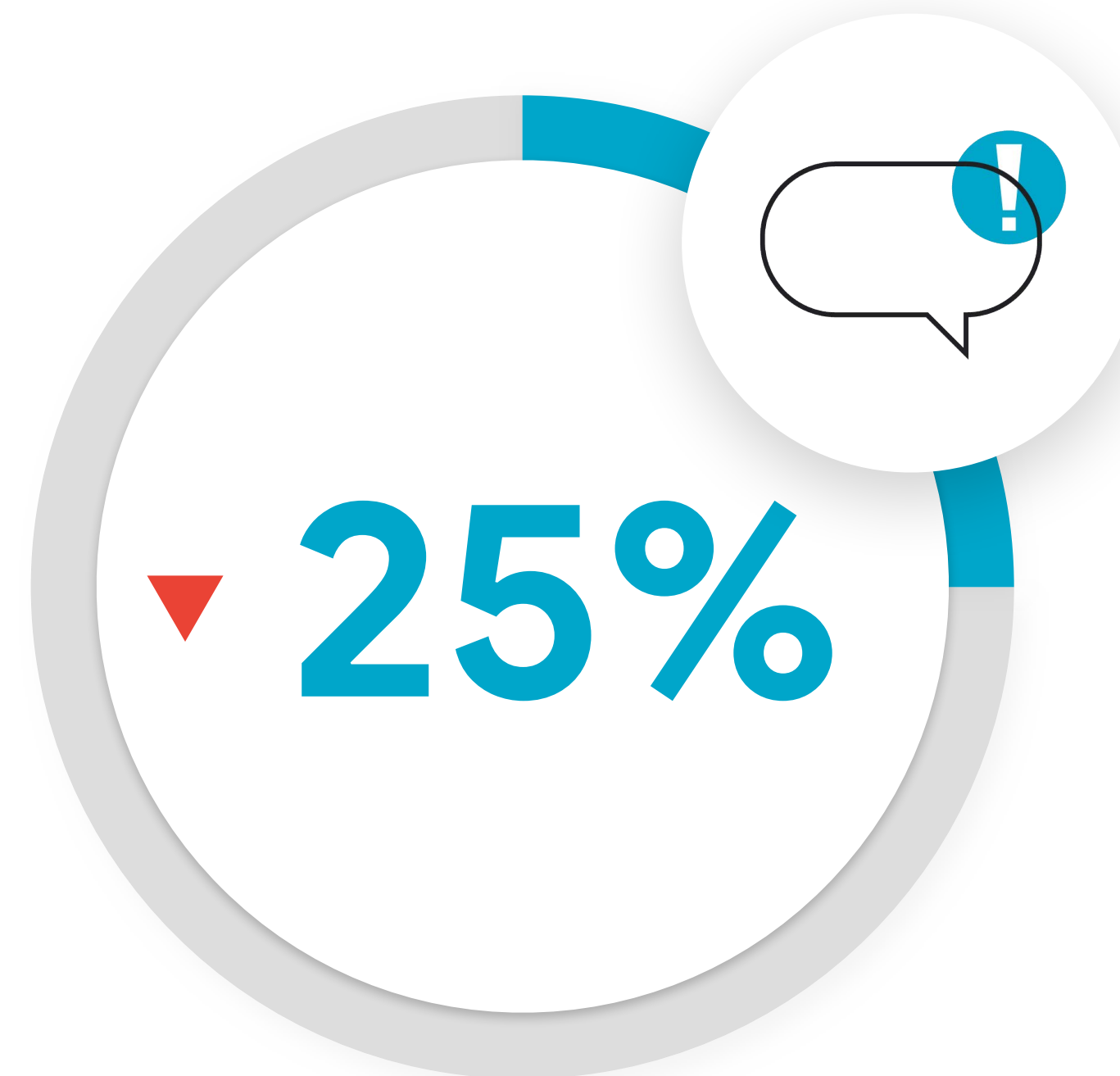
We combined data across:



Covid-19 impacted the credit markets and weakened consumer sentiment



Decline in credit enquiries on the bureau in Q2 2020 vs Q1 2020¹



Decline in consumer confidence during national lockdown²

Confluence of mega trends accelerated **shift to digital**

Mega trends

1

Millennial workforce

2

Rise of Internet penetration

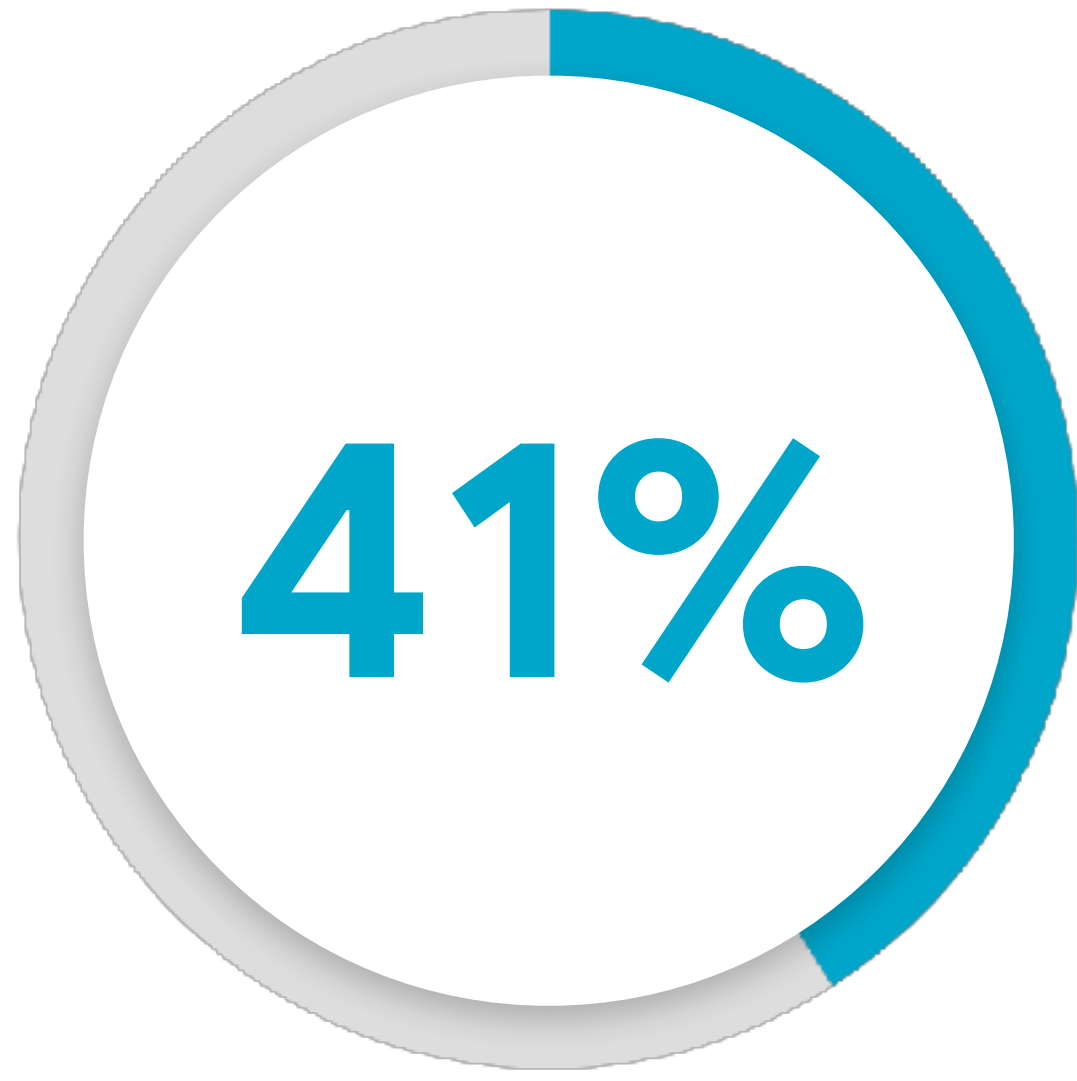
3

Rising per capita consumption



Confluence of mega trends accelerated **shift to digital**

Impact on digital & finance behaviours



increase in time spent on mobile in India; sharpest increase globally¹



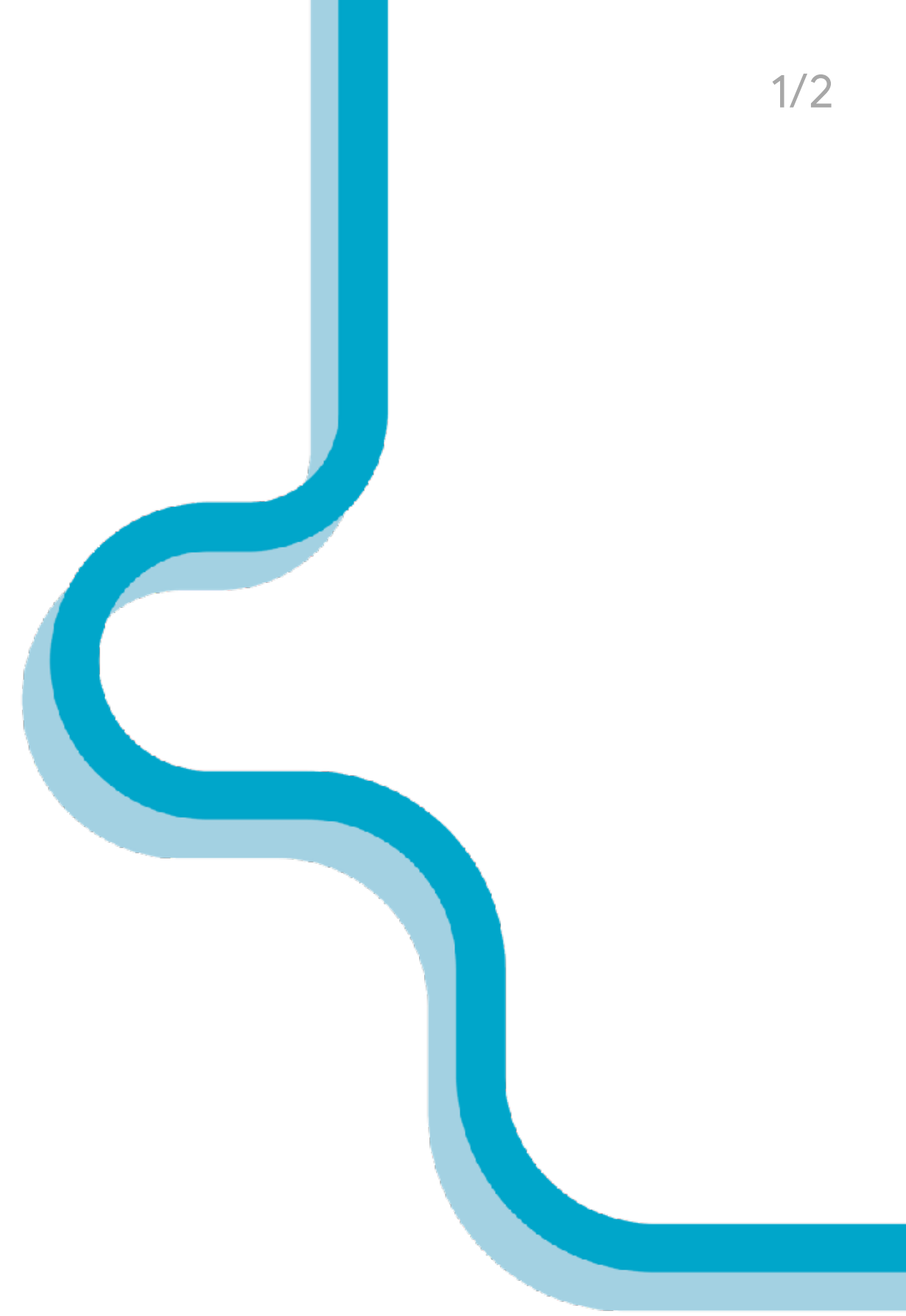
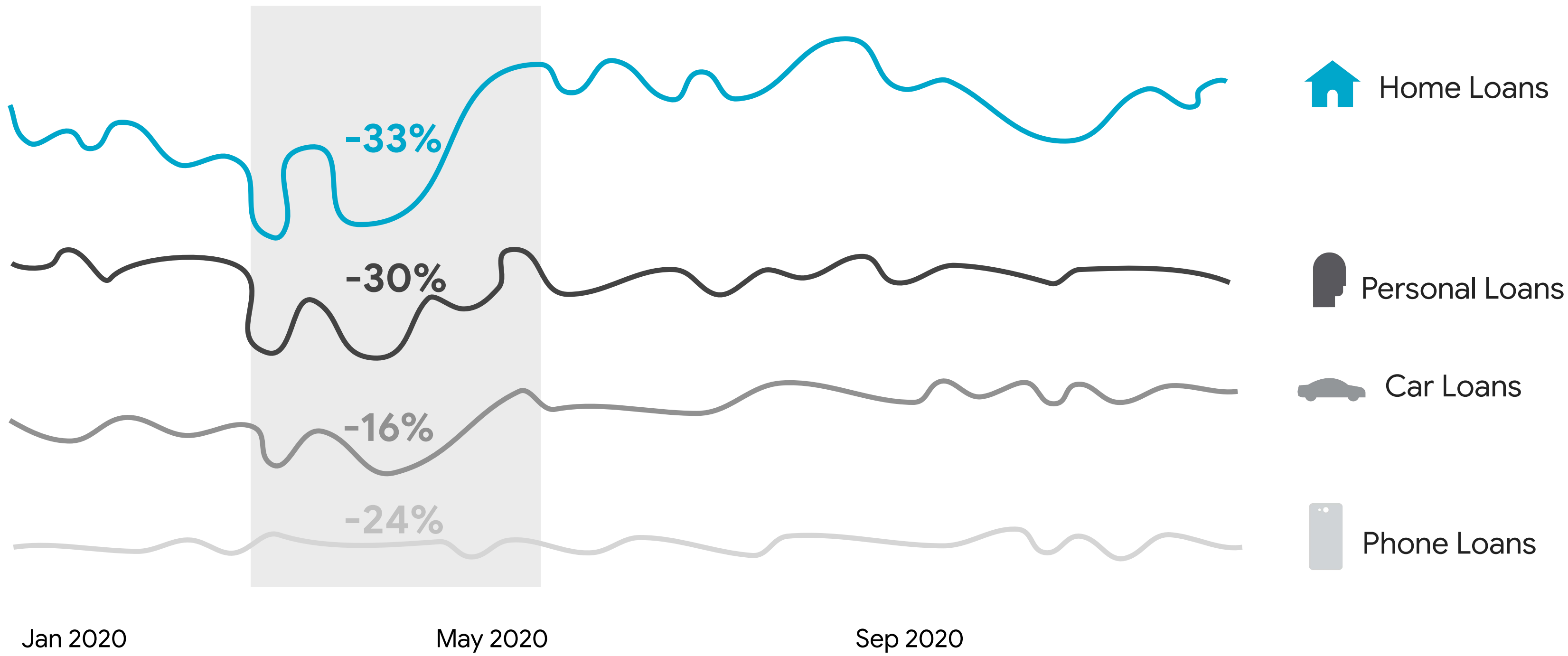
increase in monthly data consumption²



of users who did not use online banking regularly are likely to shift online³

Resilient consumer bucked the trend

Search interest declined initially but recovered starting H2



Resilient consumer bucked the trend



Bureau enquiries **recovered to 90%** of the 2019 levels by Dec 2020



Credit originations **recovered to 87.5%** of the 2019 levels by Dec 2020

Credit awareness and consumption has increased manifold

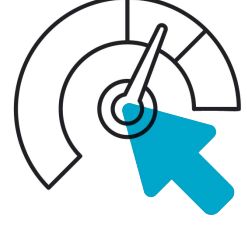
3x

Growth in number of consumers checking their credit scores in 2020 vs 2018



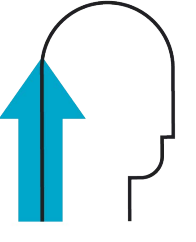
2x

Growth in number of times a consumer checks their credit scores in 2020 vs 2018

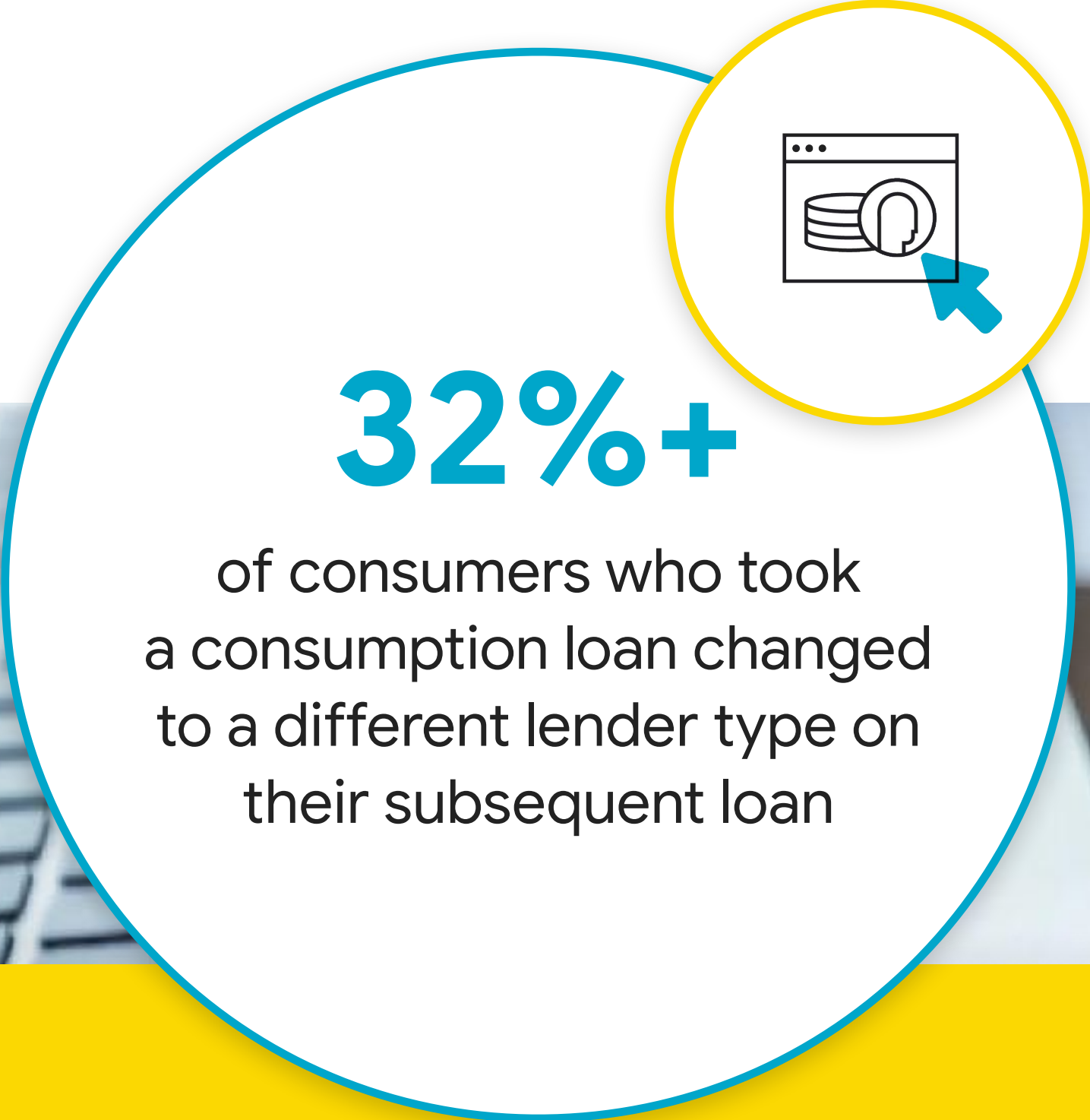


45%

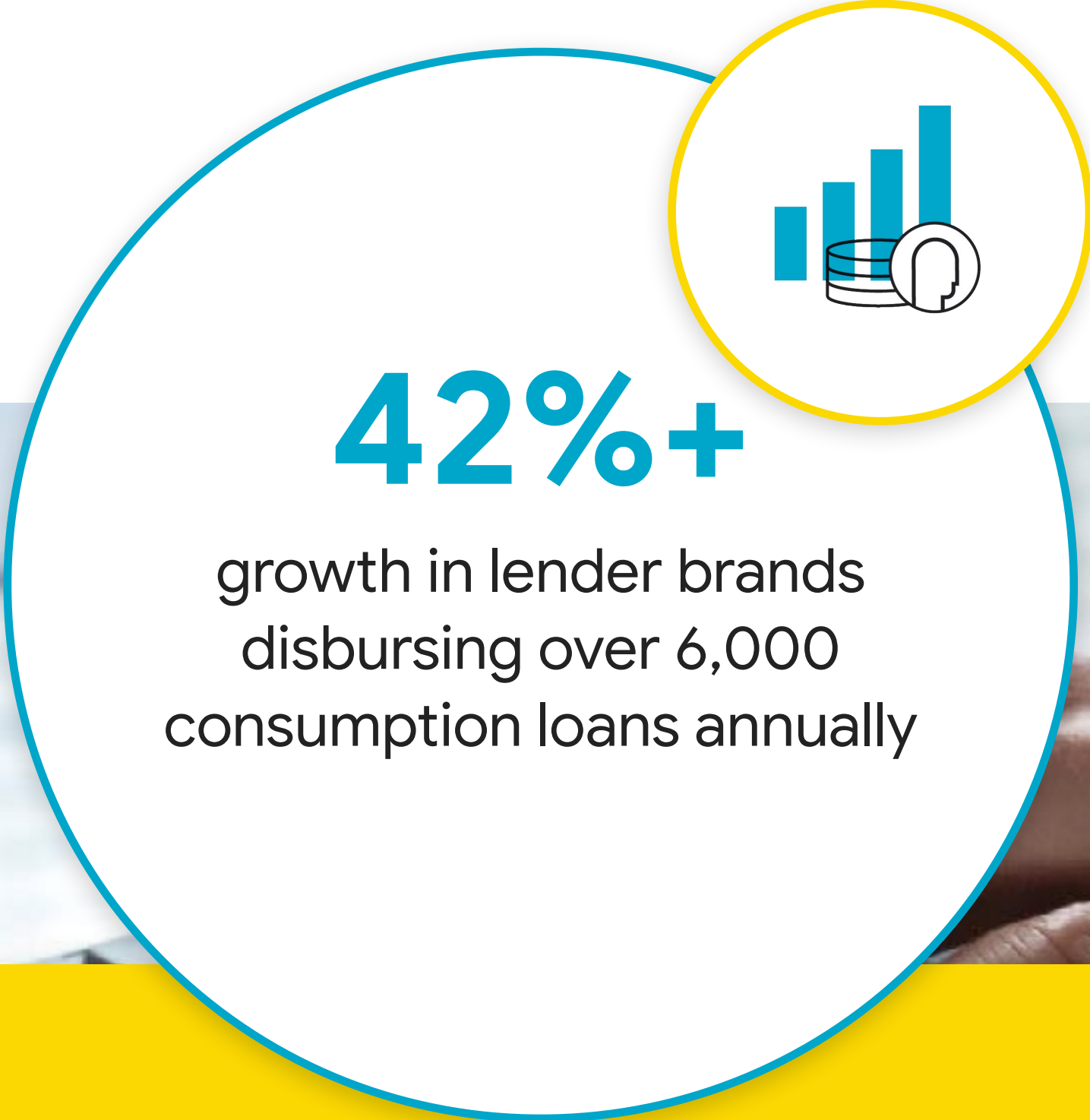
Growth in average consumption loans taken per borrower since 2017



Resulting in increased industry competition

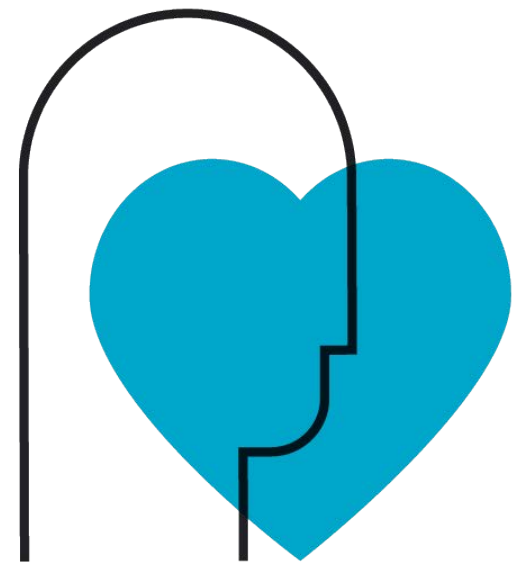


Value-seeking vs Brand loyal

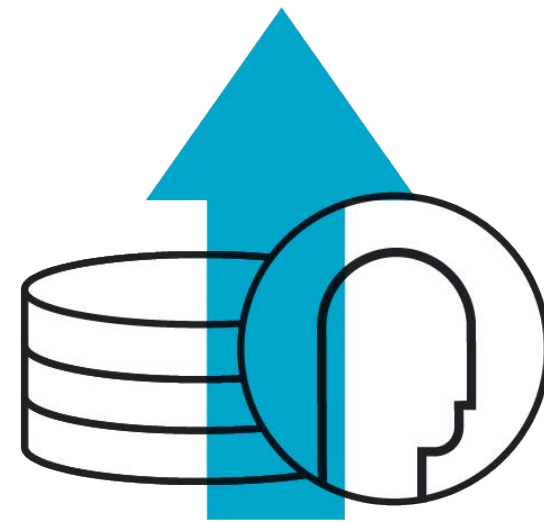
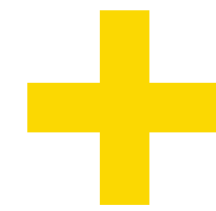


Industry players

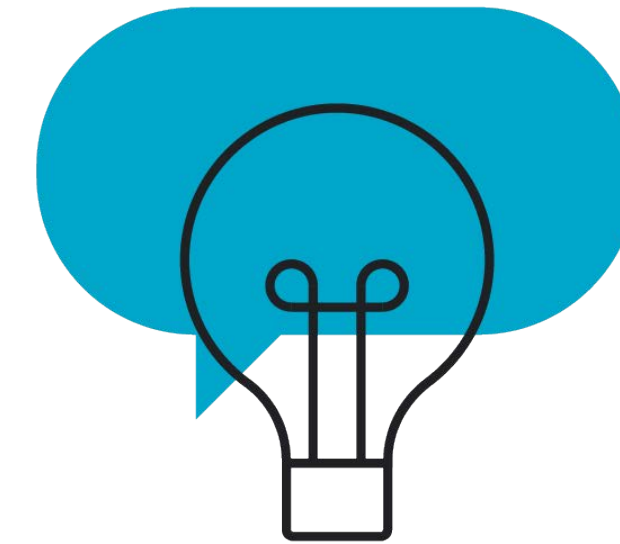
In summary



An evolving
digital consumer



A dynamic financial
ecosystem



An unprecedented
opportunity



Digital - fuelling
the economy



Report findings



Business implications



**“Small”
is big**



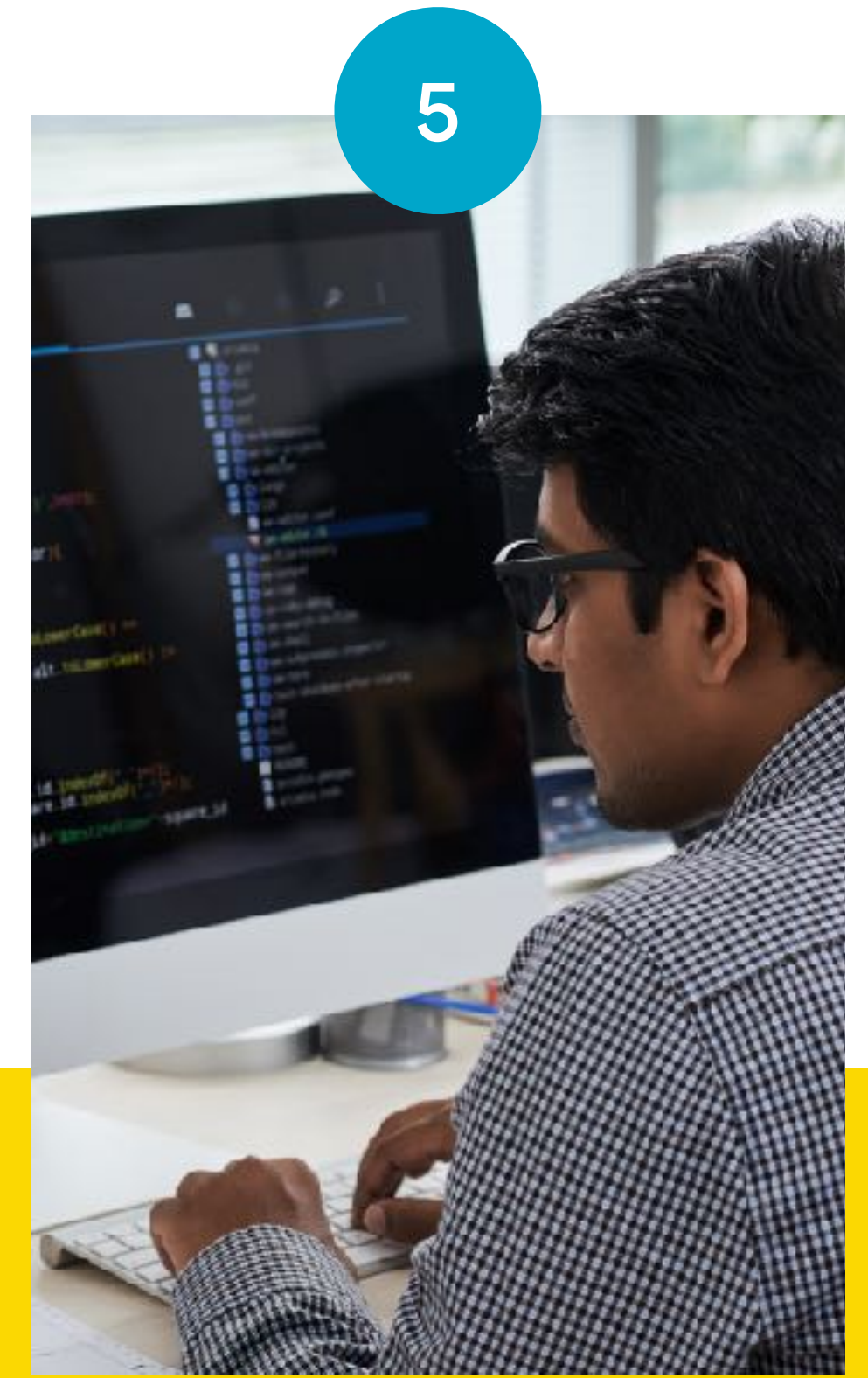
**Beyond urban
India**



**One size does
not fit all**



Reiterate trust



**Tech is the future
of lending**

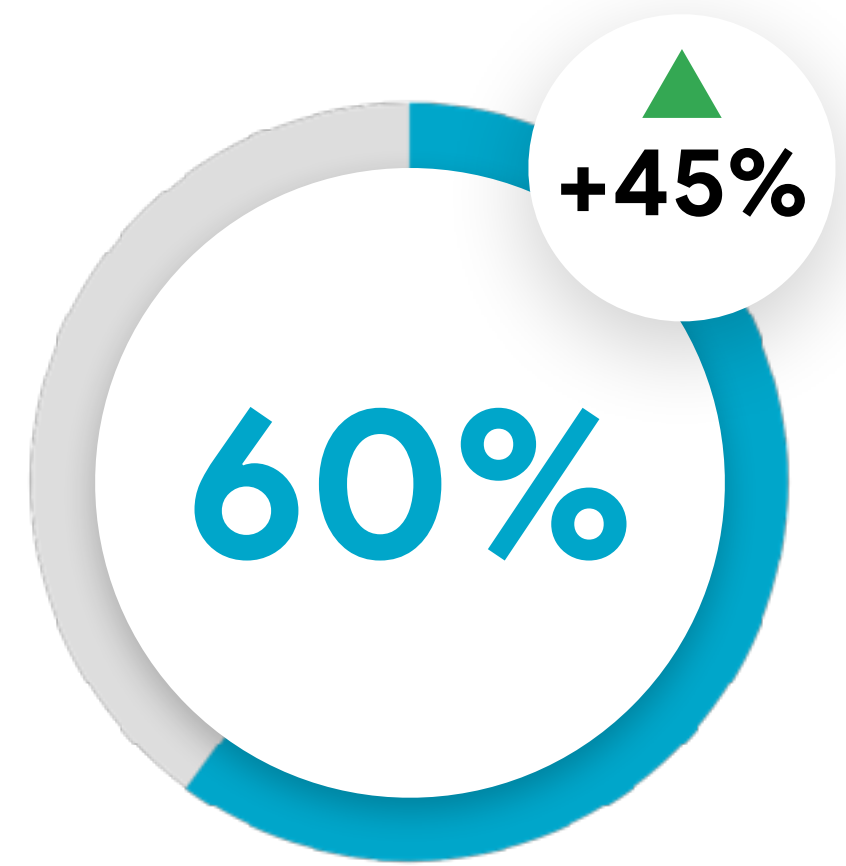


“Small” is big

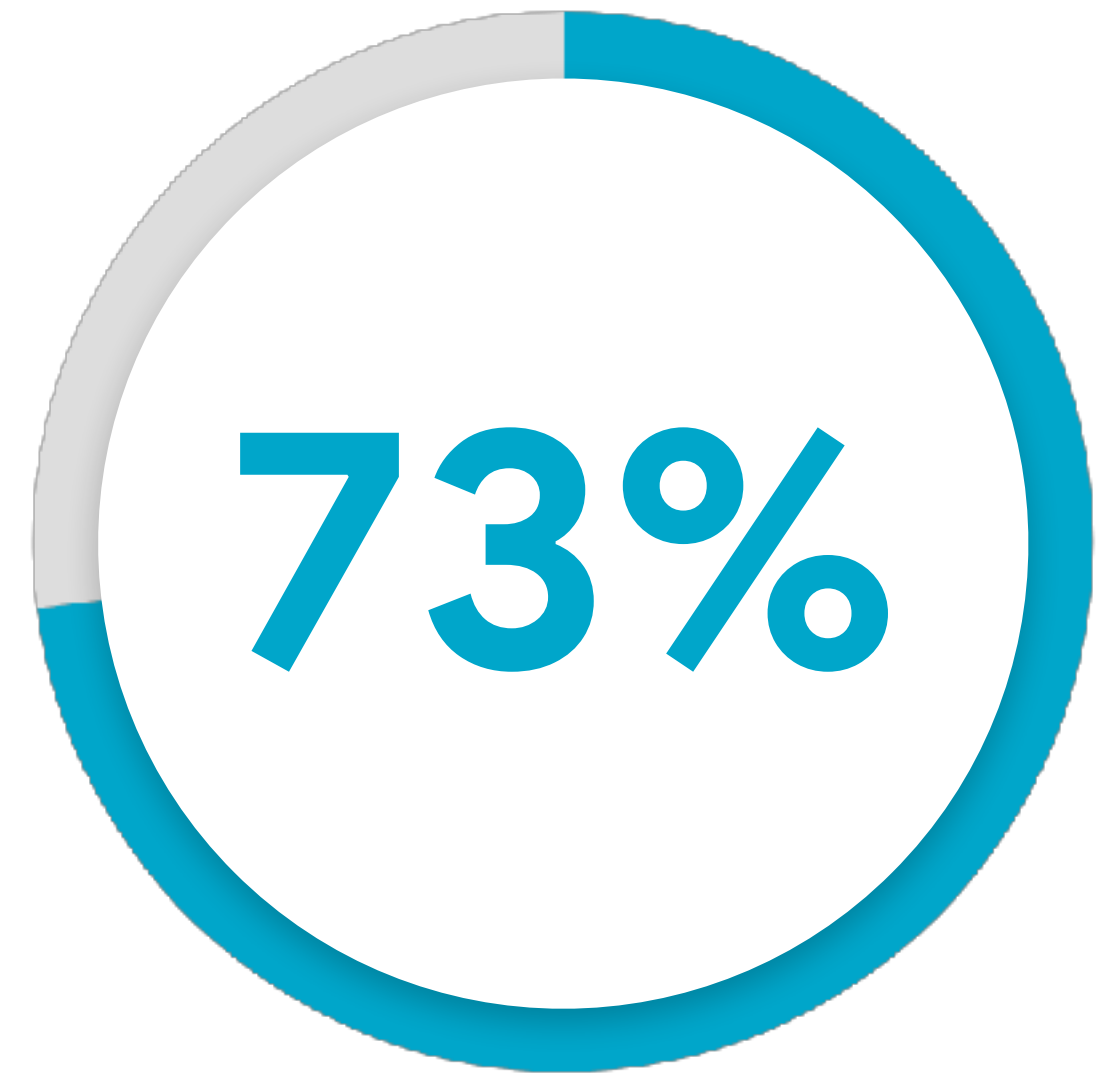
Small-ticket lending is a reality which cannot be ignored



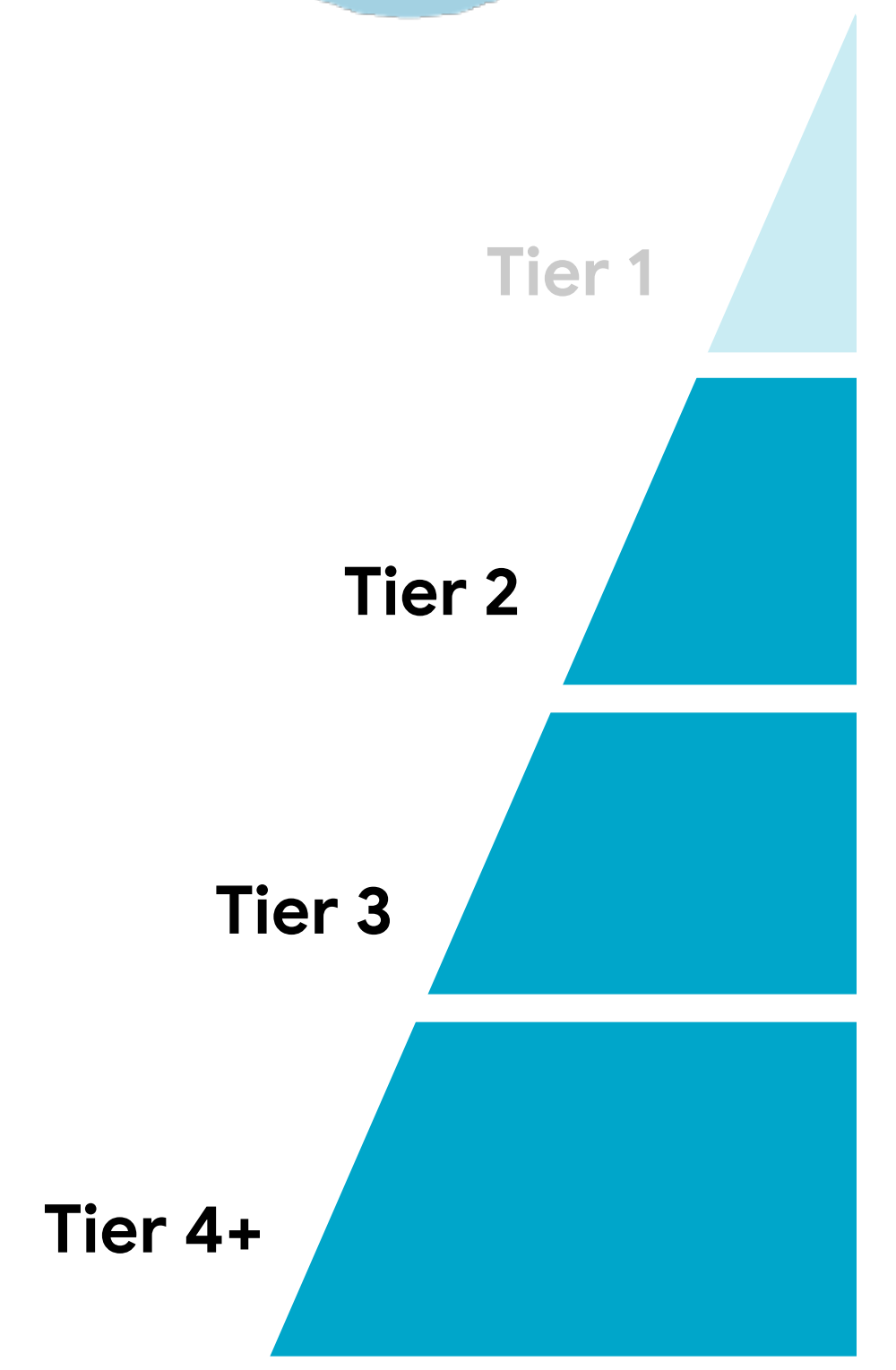
Growth in number of <= INR 25K Personal Loans originated in 2020 vs 2017



Share contribution of <= INR 25K loans to all Personal Loan originations in Q4 2020



Small-ticket loans originate outside Tier 1

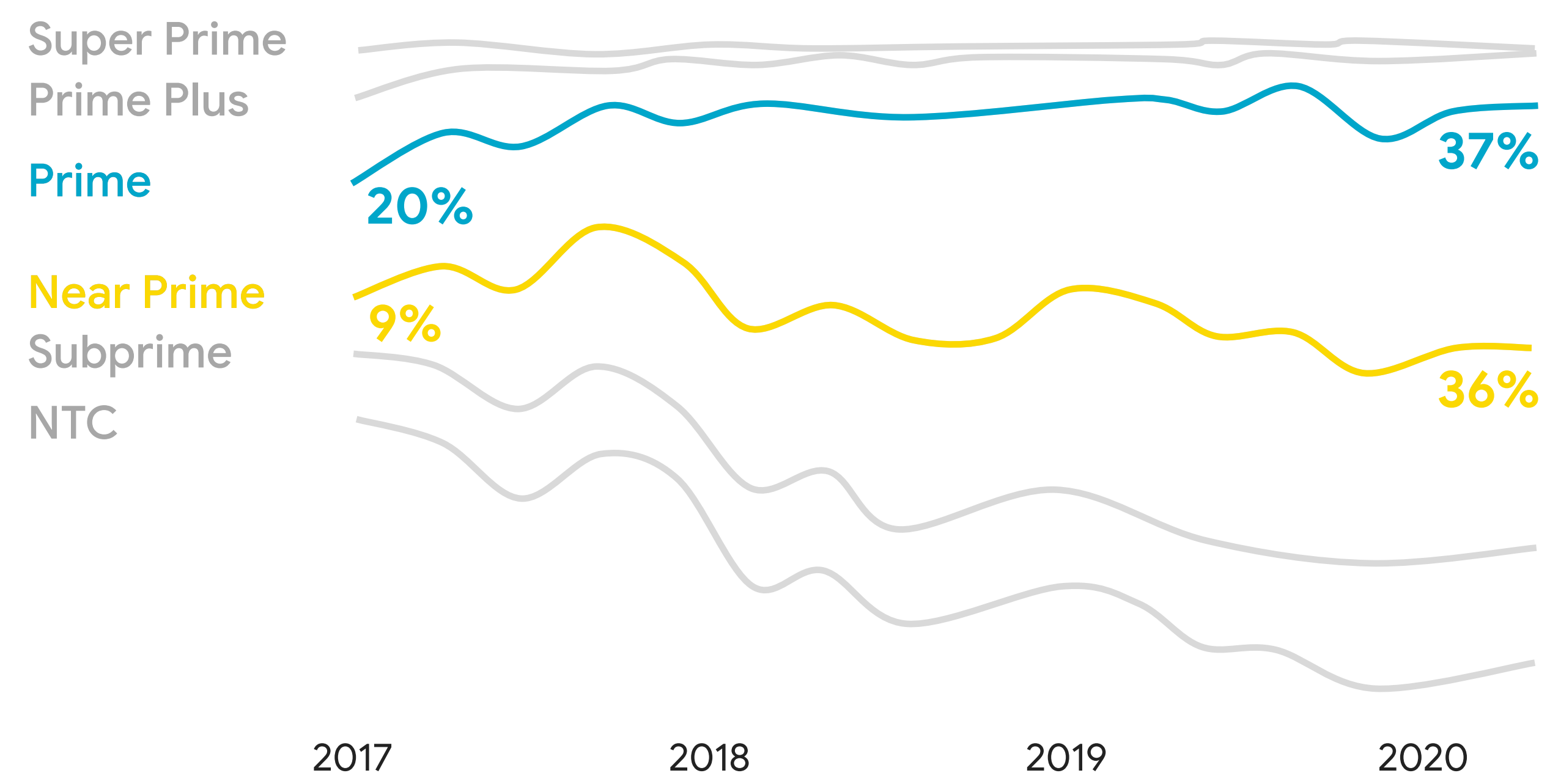


▲ Share shift in percentage points compared to Q4 2017

Source: TransUnion CIBIL data, India, 2017 and 2020

Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh

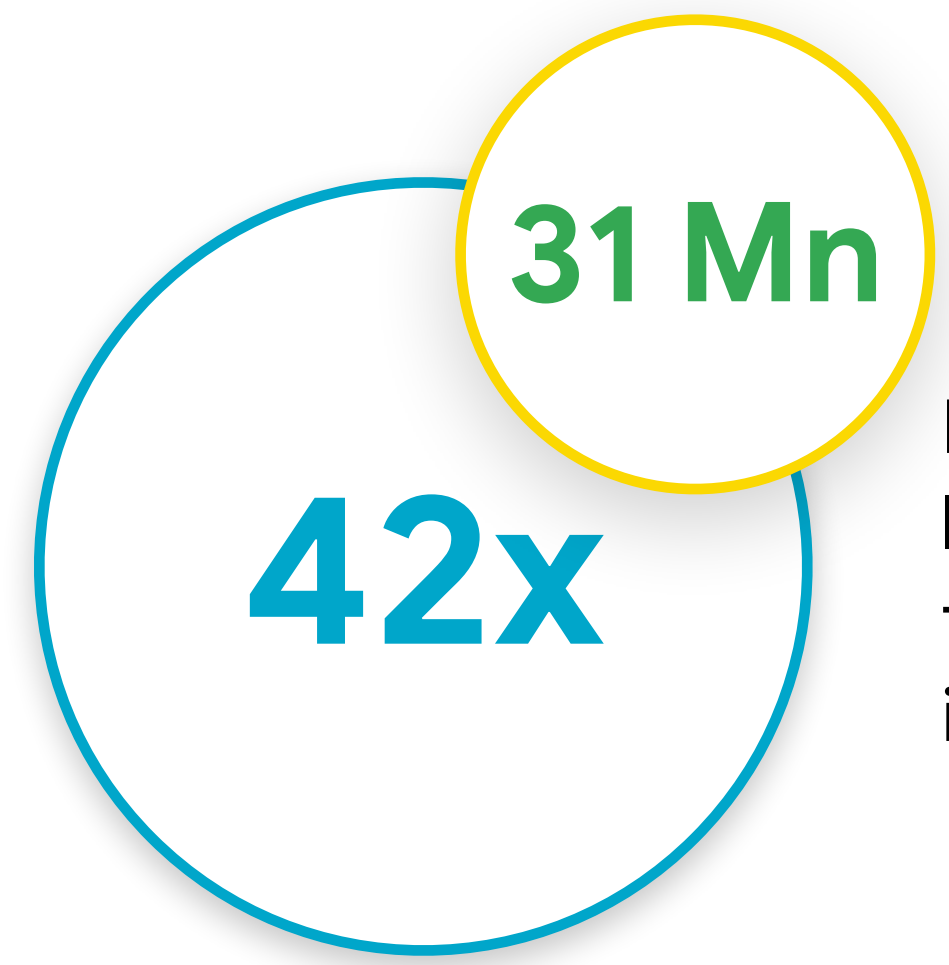
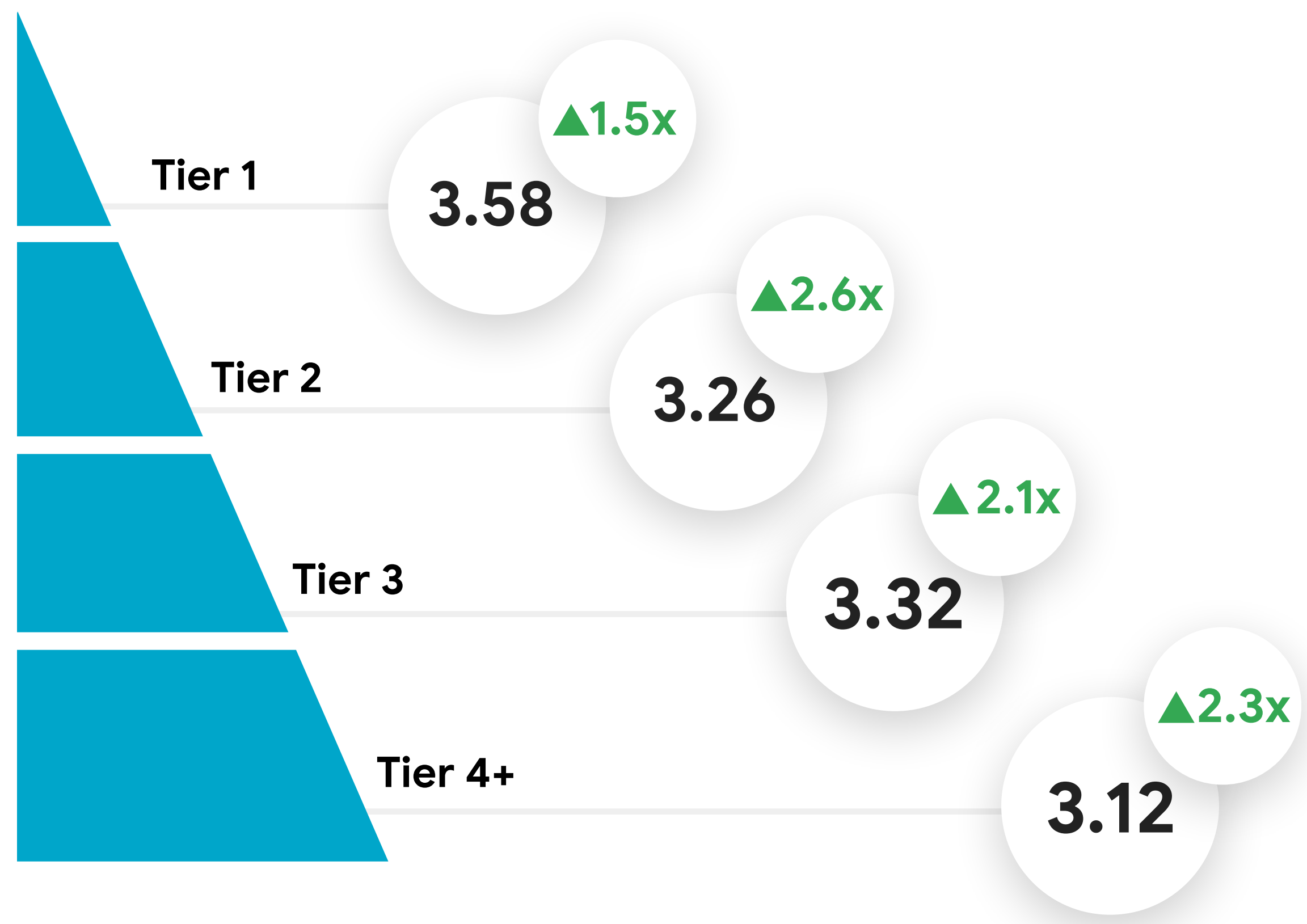
Driven by increased lending to experienced Prime & Near Prime borrowers



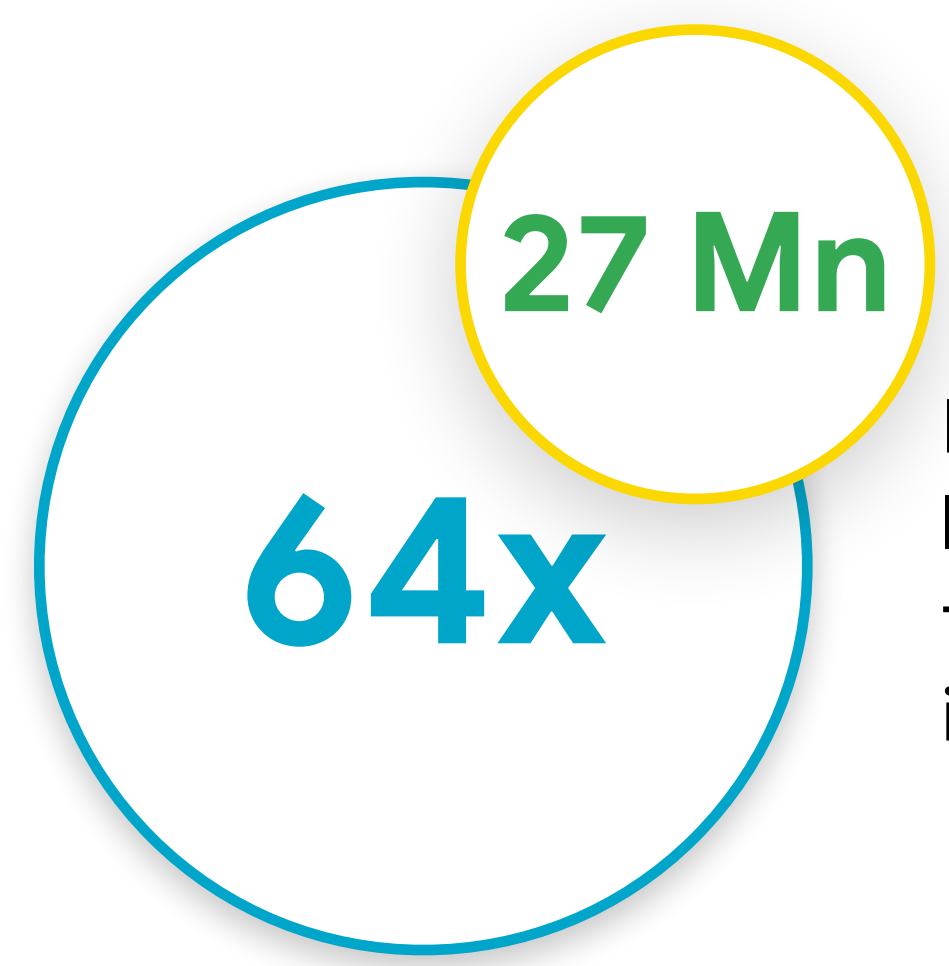
Known-to-product borrowers make up 40% of small loan borrowers¹ in Q4 2020

Smaller-ticket borrowers tend to have deeper relationships

Number of credit relationships per borrower 2020



Borrowers taking small loans repeatedly from the **same lender brand** in 2020 vs 2017



Borrowers taking small loans repeatedly from the **same FinTech NBFCs** in 2020 vs 2017

▲ Increase in number of credit relationships per borrower since 2017

Source: TransUnion CIBIL data, India, in 2020 vs 2017

Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh

Small loan searches online indicate varying needs

Type of documentation



20000 loan without documents



Salary-based



how much home loan can i get on 40000 salary



Instantaneous



need 30000 rupees loan urgently



Consumption



phone on loan



Gender



mahila loan 30000



EMI

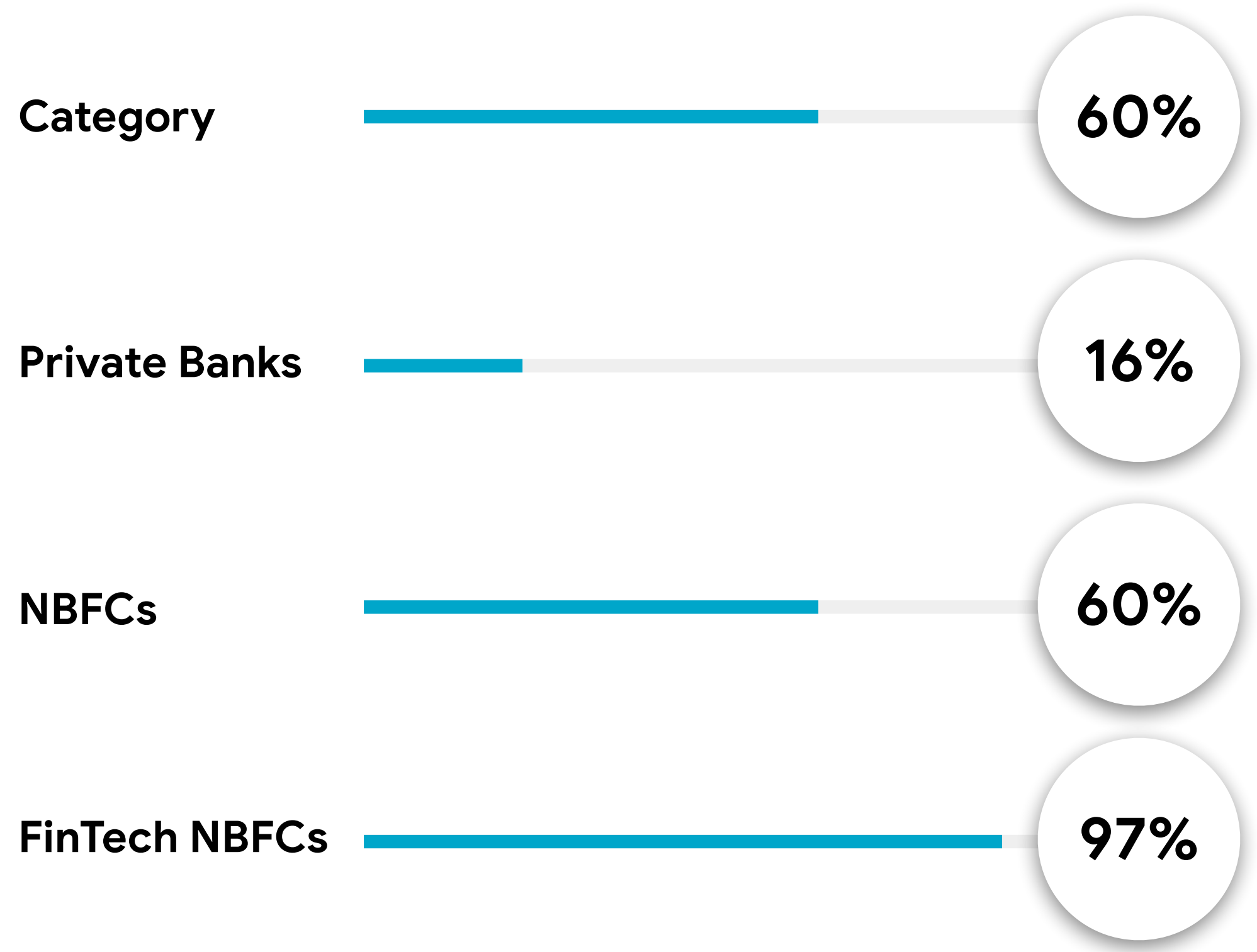


laptop on emi



While **Banks are lagging behind** on capturing this trend, there is need to expand with prudent caution

Share of <= INR 25K Personal Loans



Small-ticket Personal Loans average 90+ days past due in 2020 has increased by 2.6x vs 2019 average

Beyond urban India

User intent from **non-metros** is material

Illustrative for Personal Loans

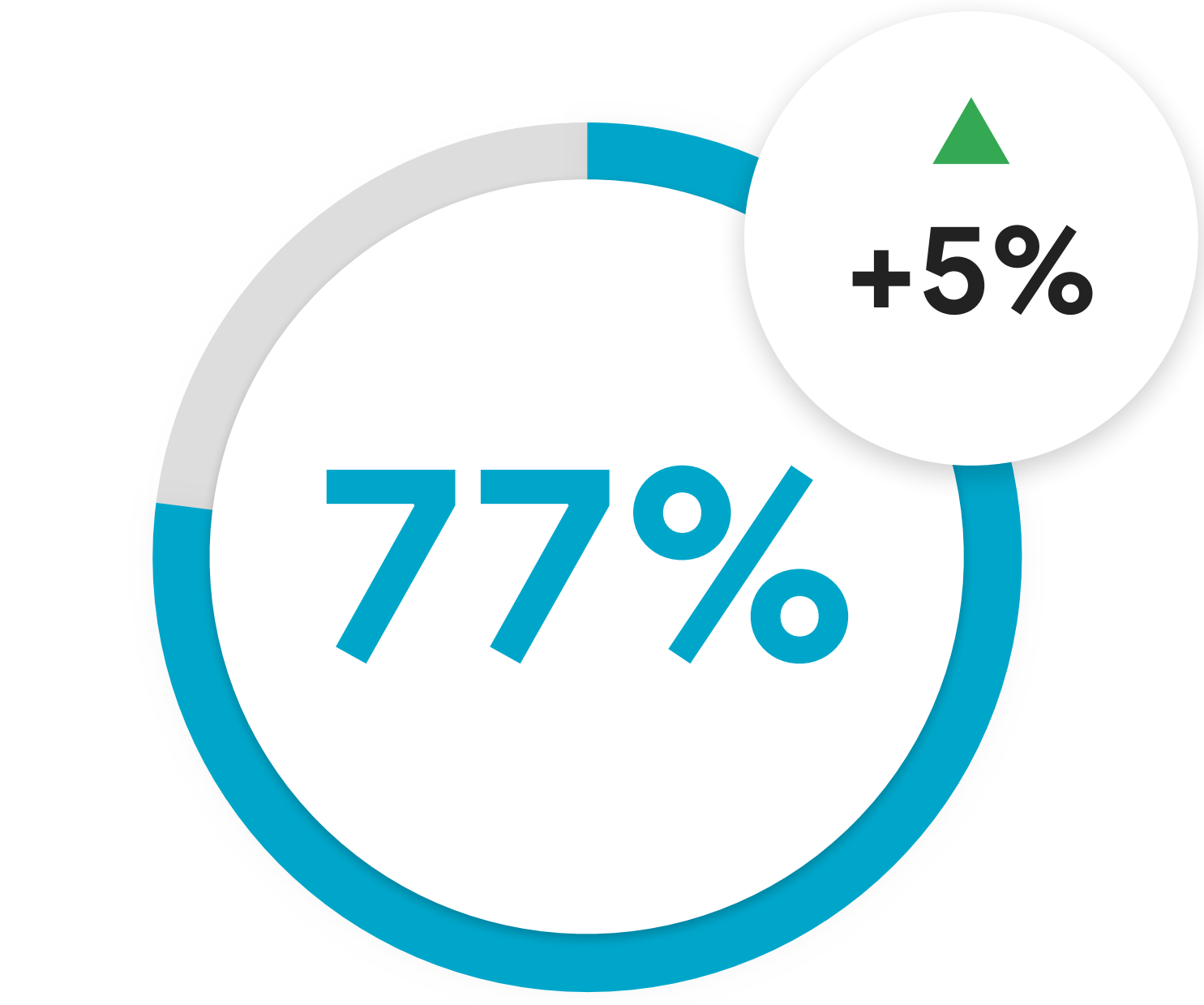
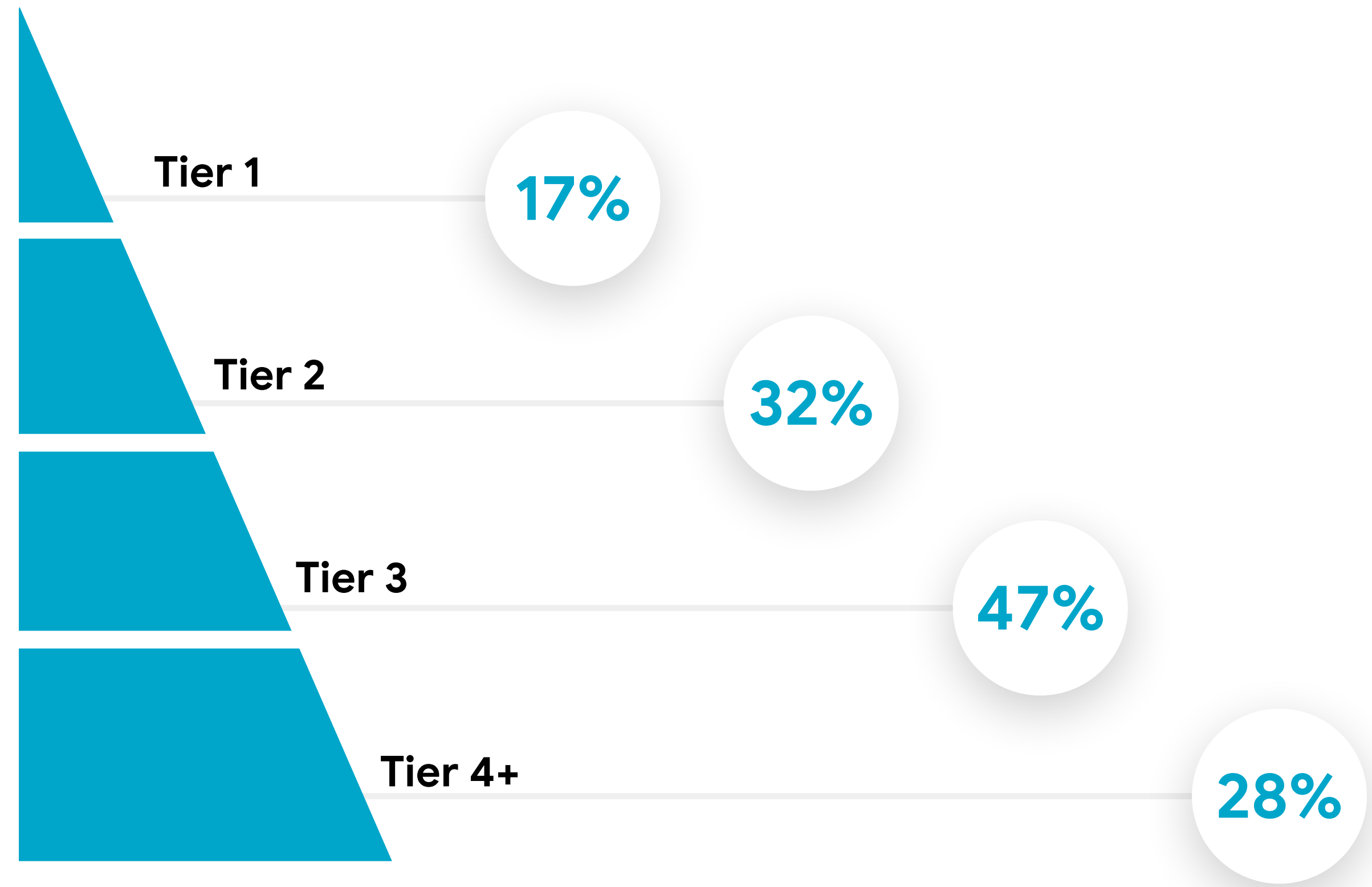
Jaipur	53%
Indore	33%
Surat	15%
Chandigarh	14%
Agra	24%
Lucknow	29%
Coimbatore	19%
Mysuru	14%
Guwahati	15%
Bhubaneswar	21%

Search volume vs metro average



The balance has shifted in favour of non-Tier 1 cities and is growing faster too

3 year CAGR in retail credit searches



of all retail loan enquiries from Tier 2 cities and beyond in 2020

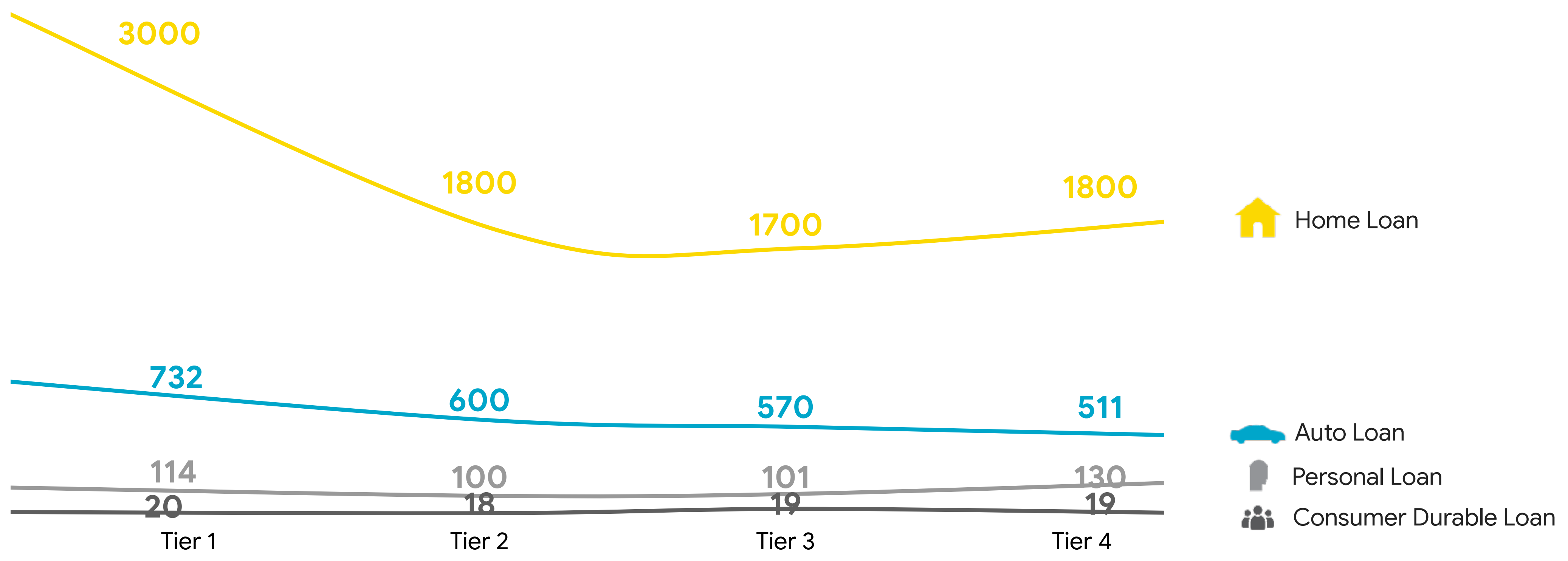
▲ Share shift in percentage points compared to Q4 2017

Searches across Personal Loans, Home Loans, Auto Loans; Source: TransUnion CIBIL data, 2020; Google Internal Data, India, 2020

Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh

And ticket sizes are mostly **geo-agnostic**; with some upward skew in Tier 1 for Home Loans and Auto Loans

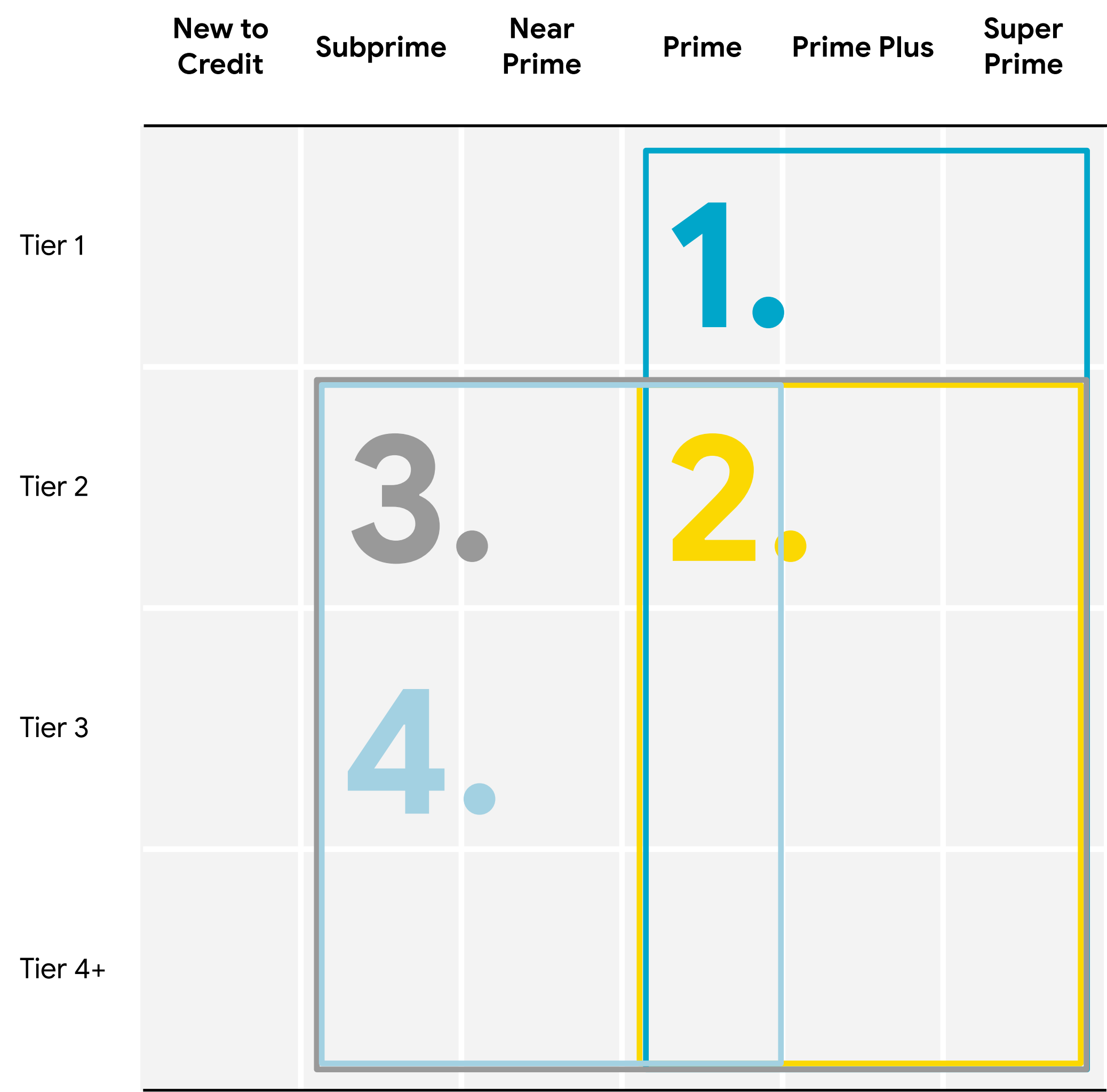
Average ticket size, INR '000



A significant portion of demand is coming from preferred quality credit segments in these geos

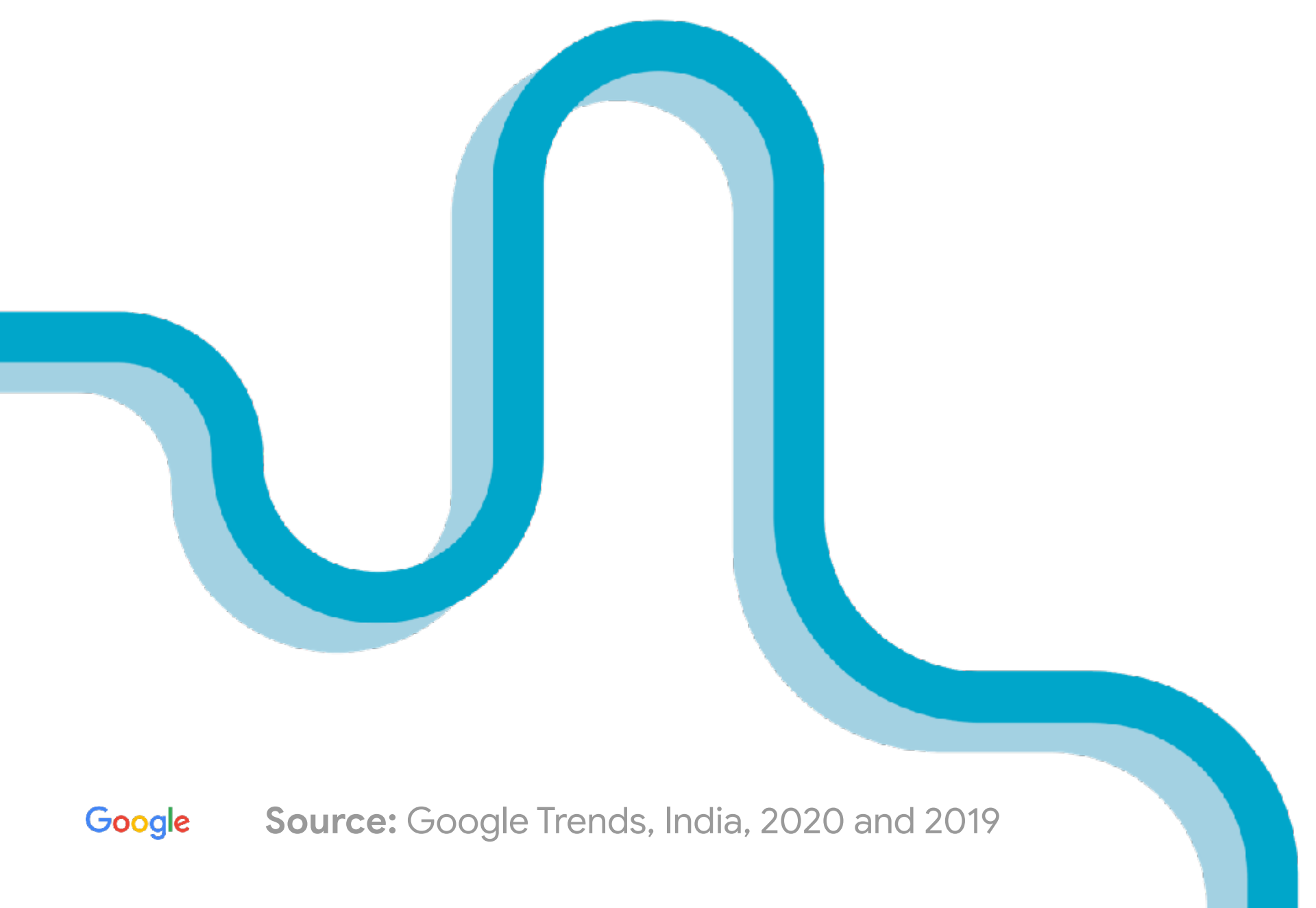
At most 0.5% incremental risk (90+ days past due) while lending outside Tier-1 for Private Banks, whereas for NBFCs and FinTech NBFCs there is lower risk to lend outside Tier-1 vs. in Tier-1

- 1** 50% of the demand is coming from Prime and above credit tiers
- 2** ~80% of this is from outside Tier 1 cities
- 3** Large scored borrower opportunity outside Tier 1 at 70%
- 4** Fast growing middle accounting for 45% of the demand is growing at 80%+



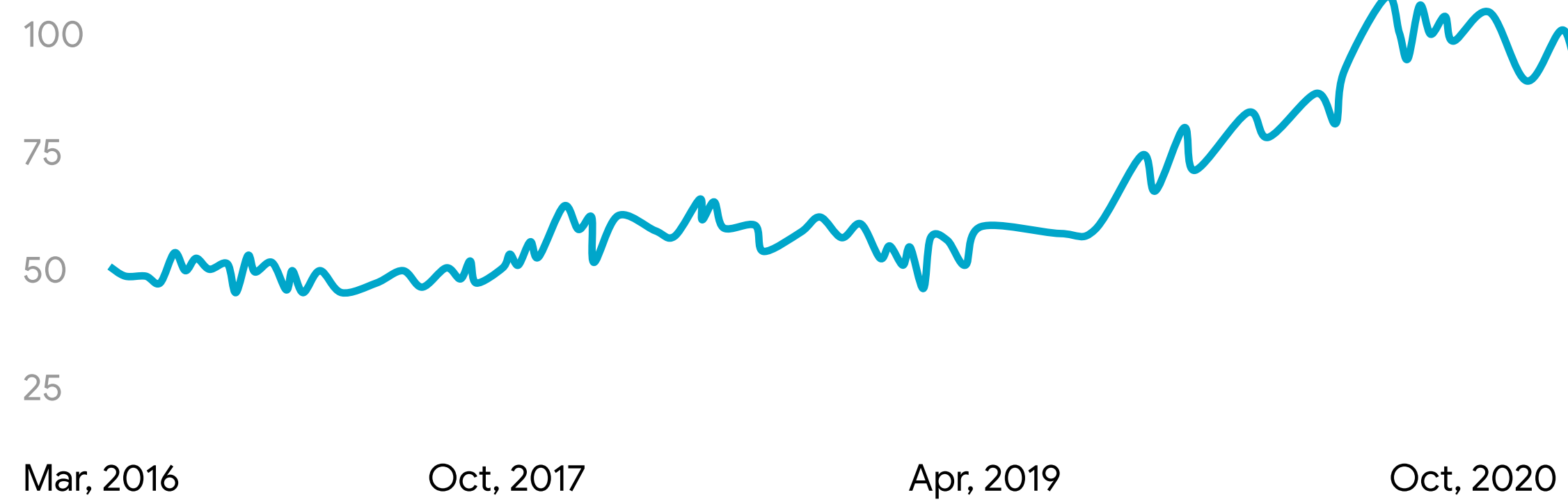
Source: TransUnion CIBIL data, 2020; All Retail Enquiries
 Credit Tiers: New to credit: No Score, Subprime: 300-680, Near Prime: 681-730, Prime: 731-770, Prime Plus: 771-790, Super Prime: 790+;
 Tier 1: Population > 40 lakh; Tier 2: 10-40 lakh population; Tier 3: 5-10 lakh population; Tier 4+: Population <5 Lakh

The **rapid increase** in searches in local languages dovetails well into this opportunity on digital



And this shows up as **translation** being a key need

Searches on Google for 'Translate'



2.6x growth since 2016

Often knowing bits and parts of English, users turn to Google to ask 'meaning?'

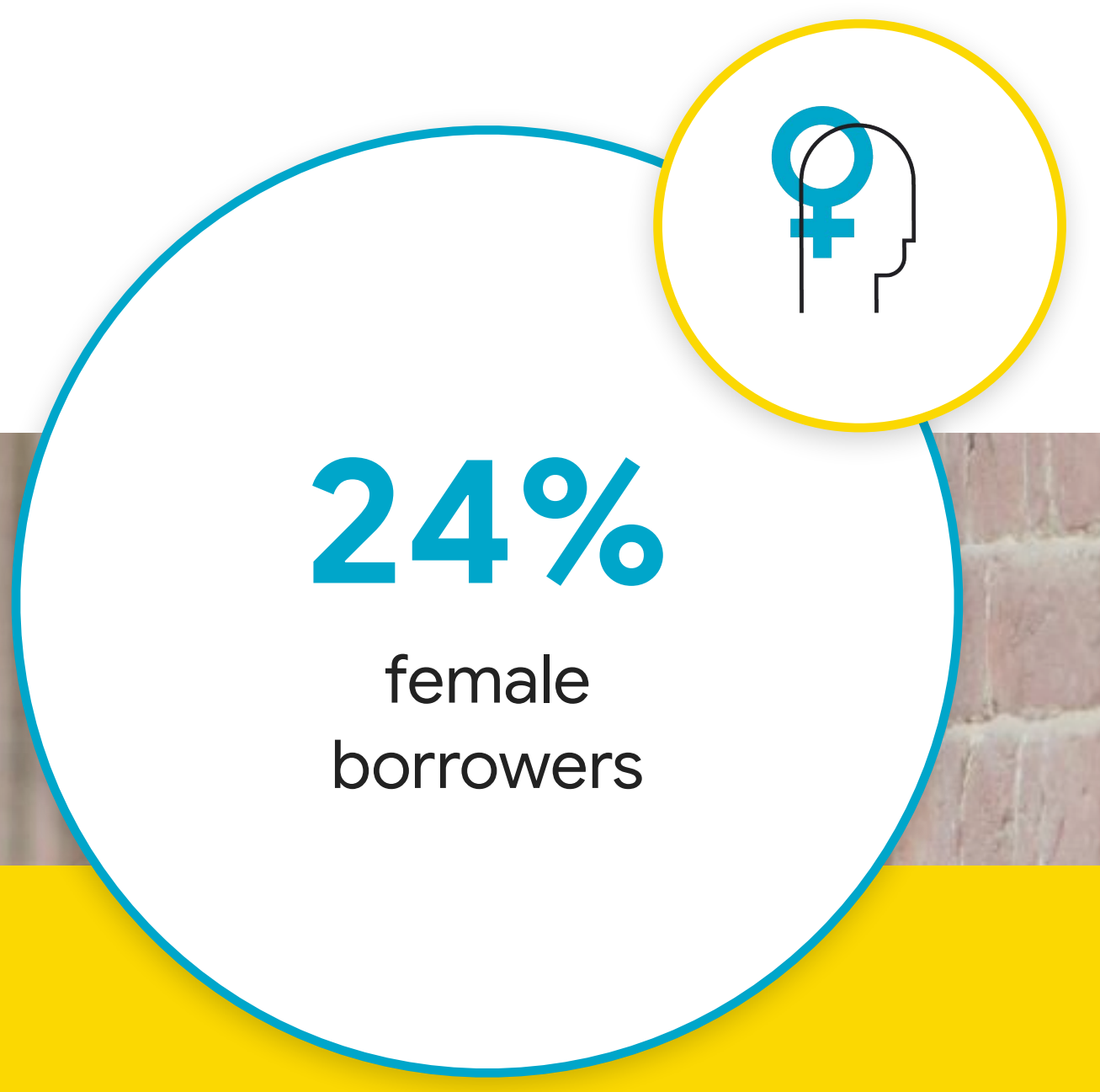
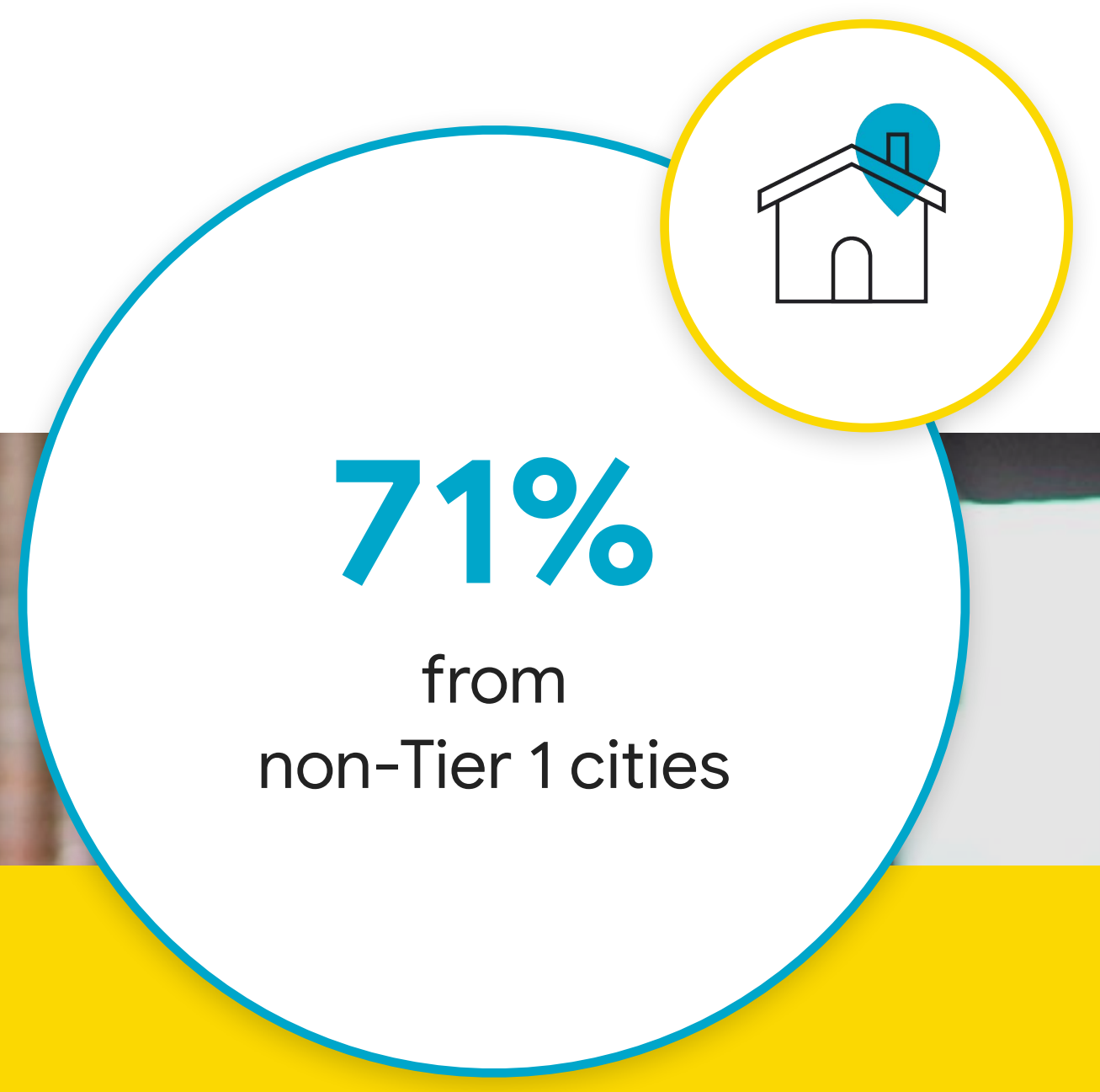
Sample 'meaning' searches

- Moratorium meaning
- Credit score meaning
- Credit meaning
- Credit meaning in marathi
- Moratorium meaning in hindi
- Moratorium means
- Term loan meaning in hindi

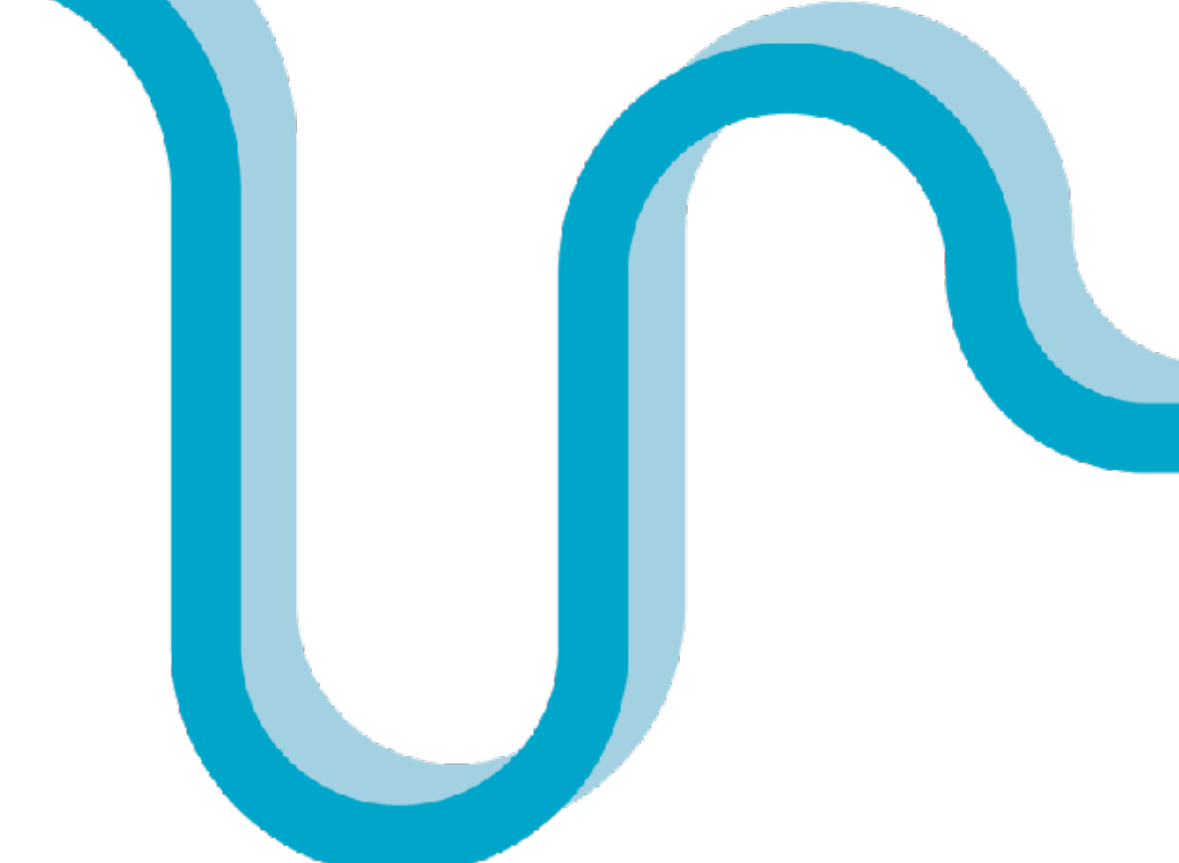


**One size does
not fit all**

The face of consumers who are new to credit is **diversified**



Source: TransUnion CIBIL data, India, 2020: All Retail Enquiries
Credit Tiers: New to credit only



And there are **variations within** each product category

	Retail Loans	Auto Loans	Home Loans	Personal Loans	Consumer Durable Loans
Under 30	49%	32%	21%	65%	48%
Outside Tier 1	71%	74%	60%	68%	63%
Growing Females	24%	15%	31%	22%	25%



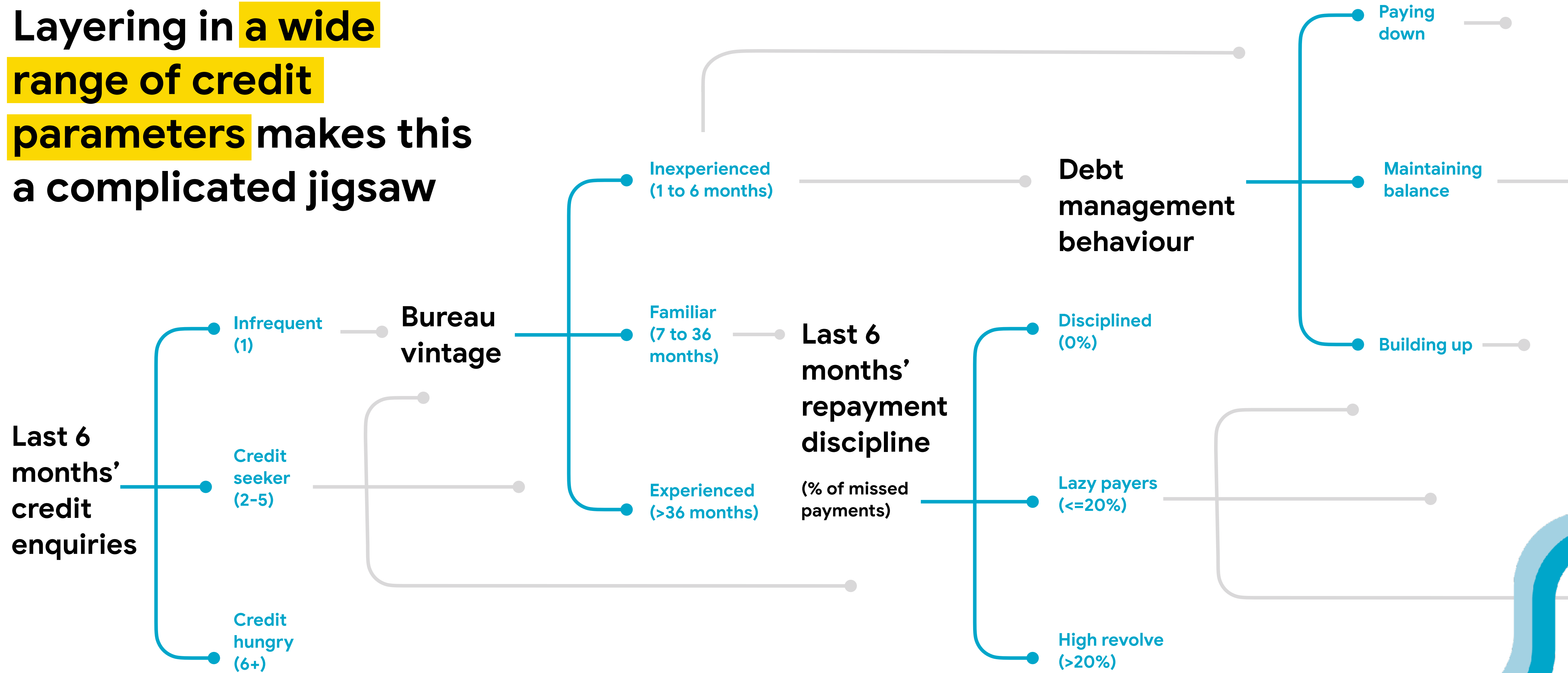
But ... are these the only attributes of assessing a consumer holistically?

- Age
- Location
- Gender
- Product types

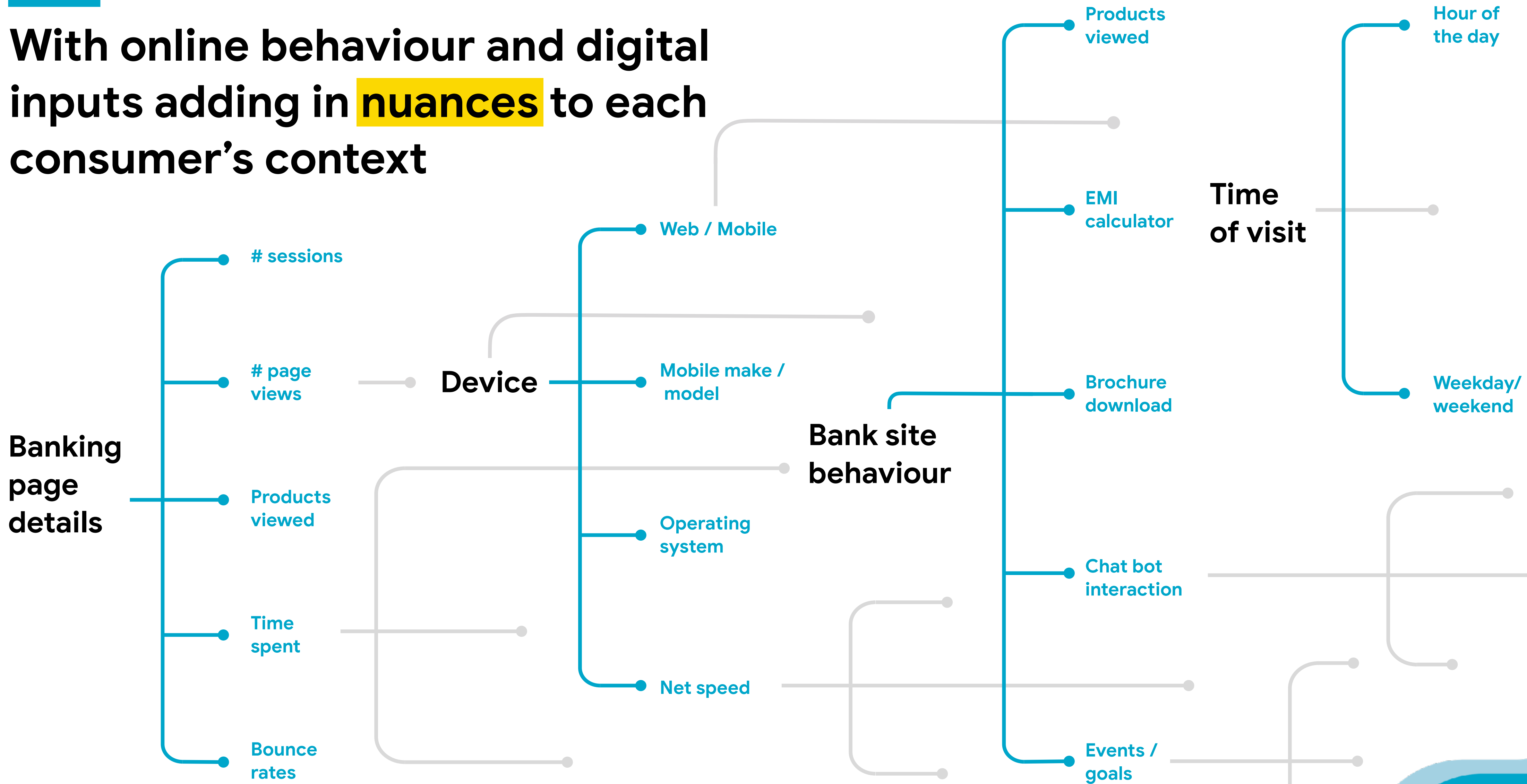
$$3 \times 5 = 15$$

ways to look at the audience with just **three** dimensions

Layering in a wide range of credit parameters makes this a complicated jigsaw



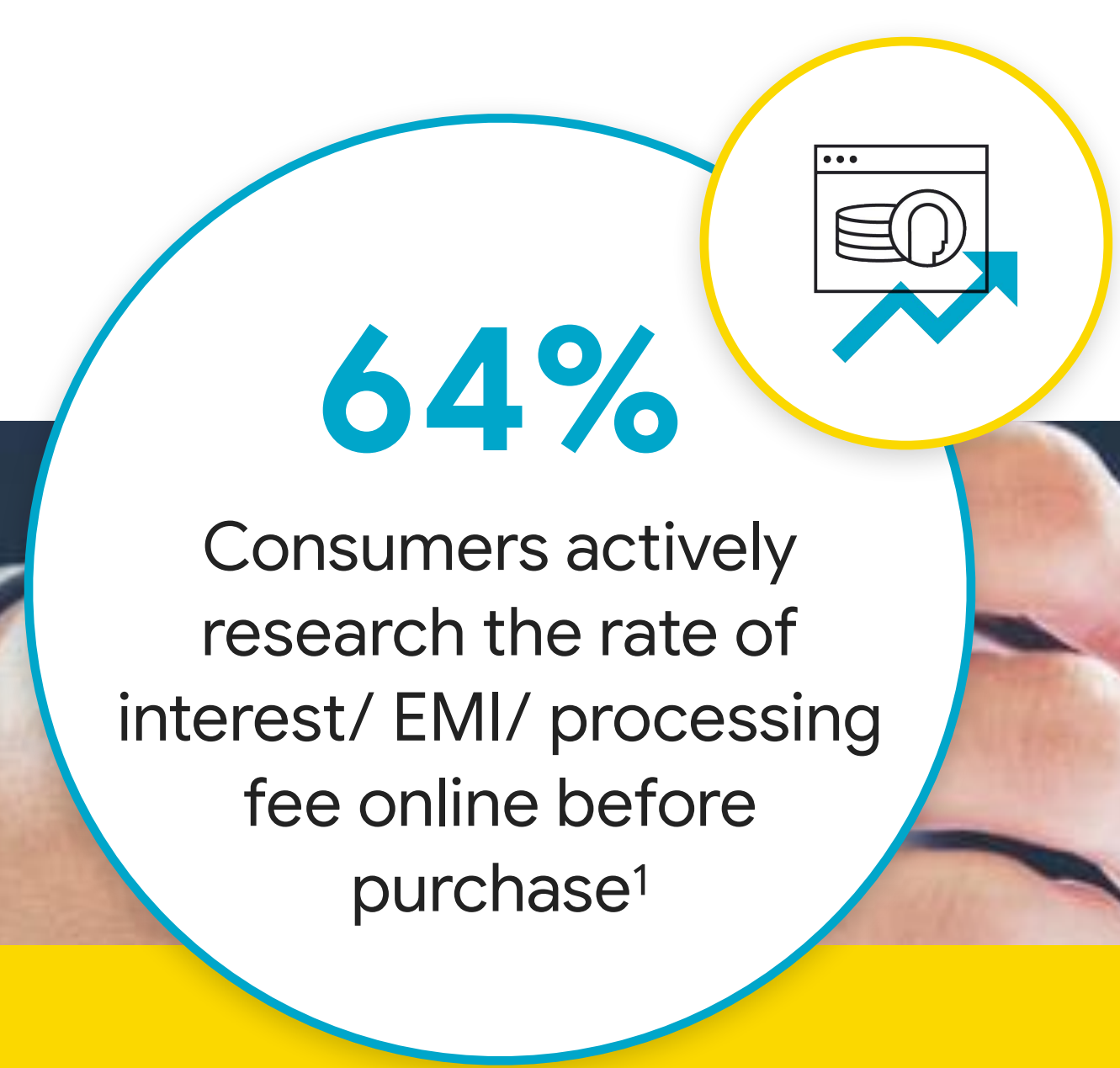
With online behaviour and digital inputs adding in **nuances** to each consumer's context



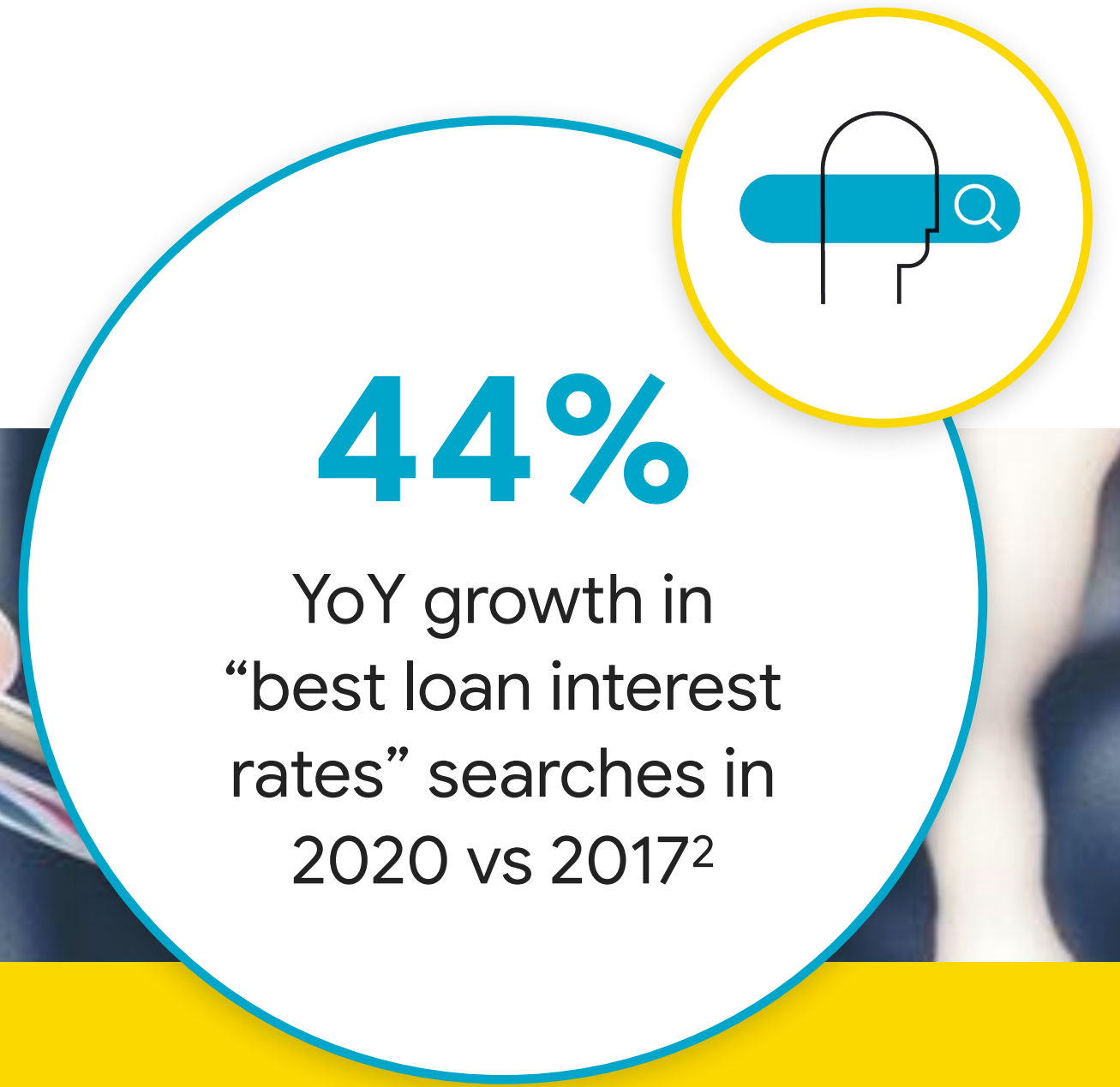


Reiterate trust

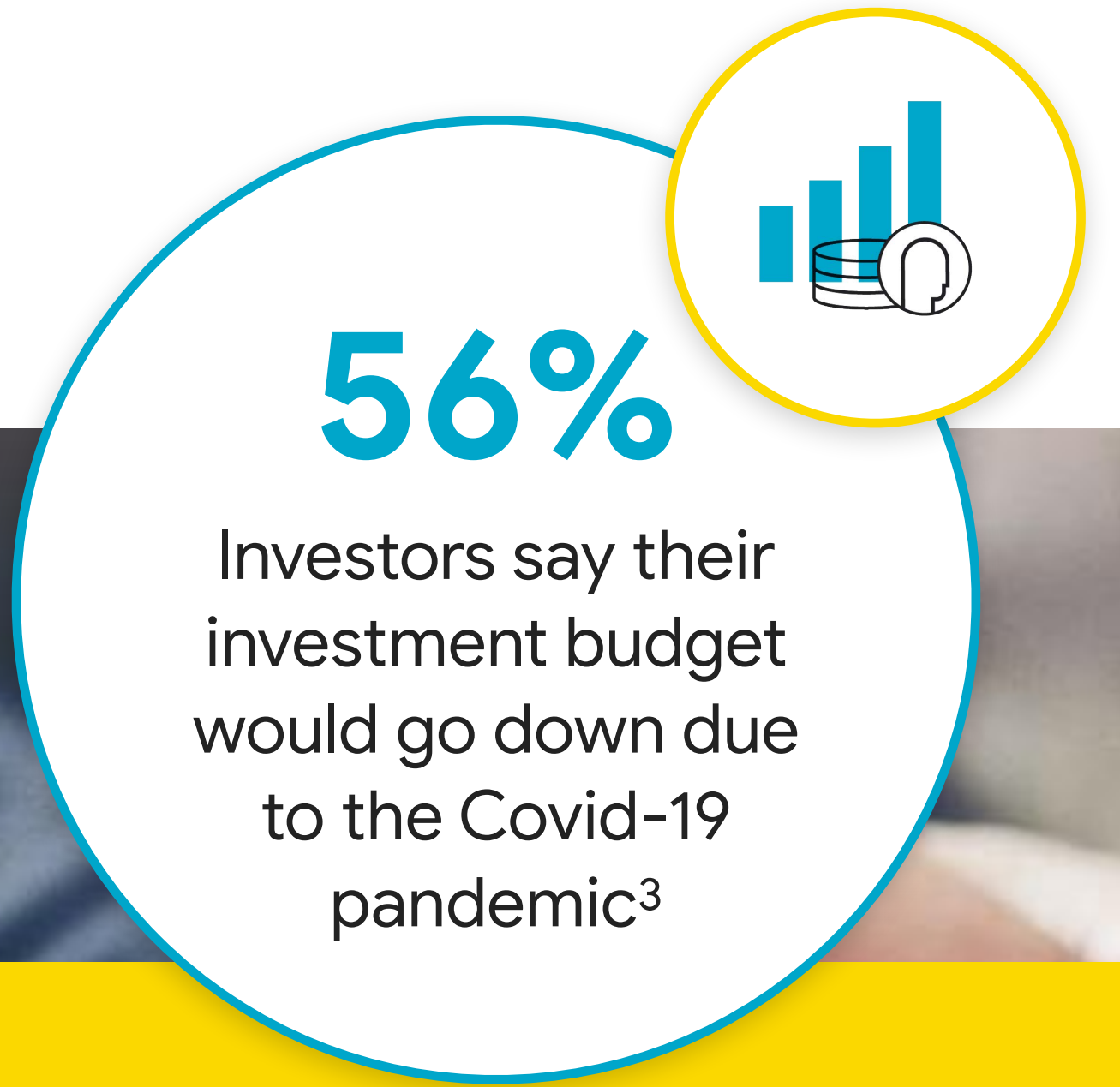
There is a heightened sense of prudence and value consciousness



Conscious



Discovery mindset



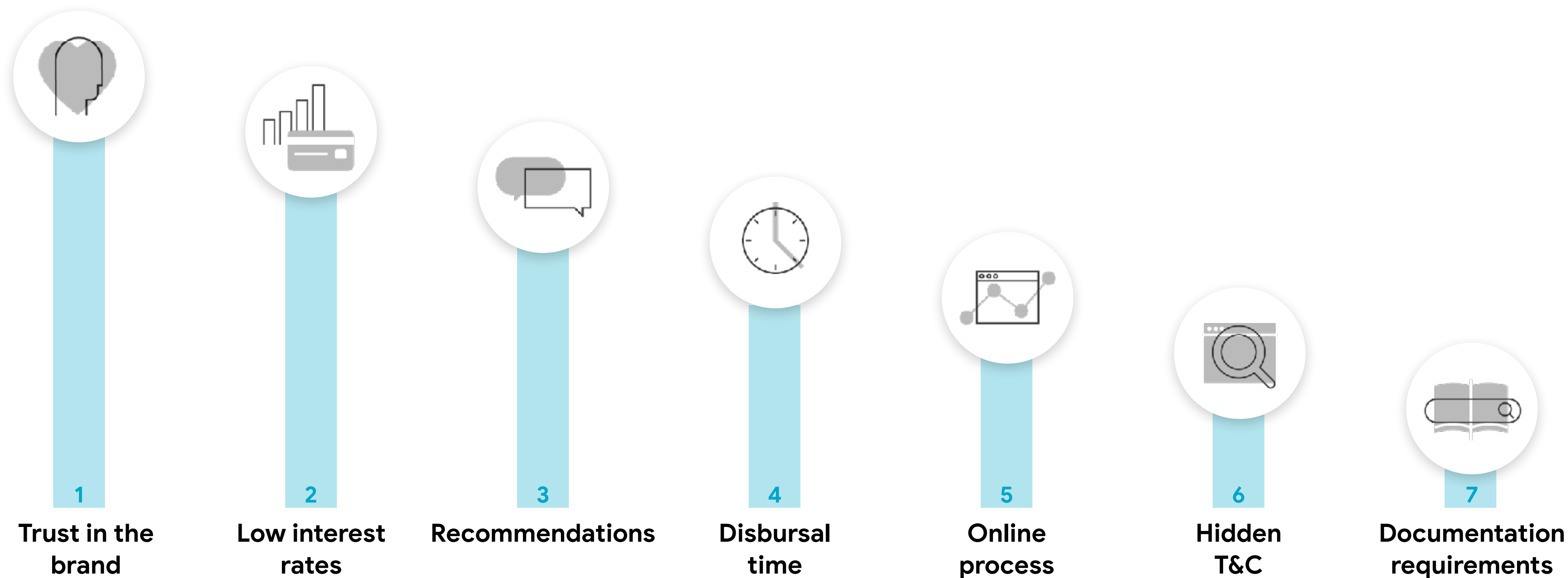
Cautious

Source: 1 Google-BCG Digital Lending a \$1 tn Opportunity Report 2018; 2 Google Trends, India, 2019 and 2020; 3 Google Ipsos Consumer Sentiment Tracker Wave 2, 2020

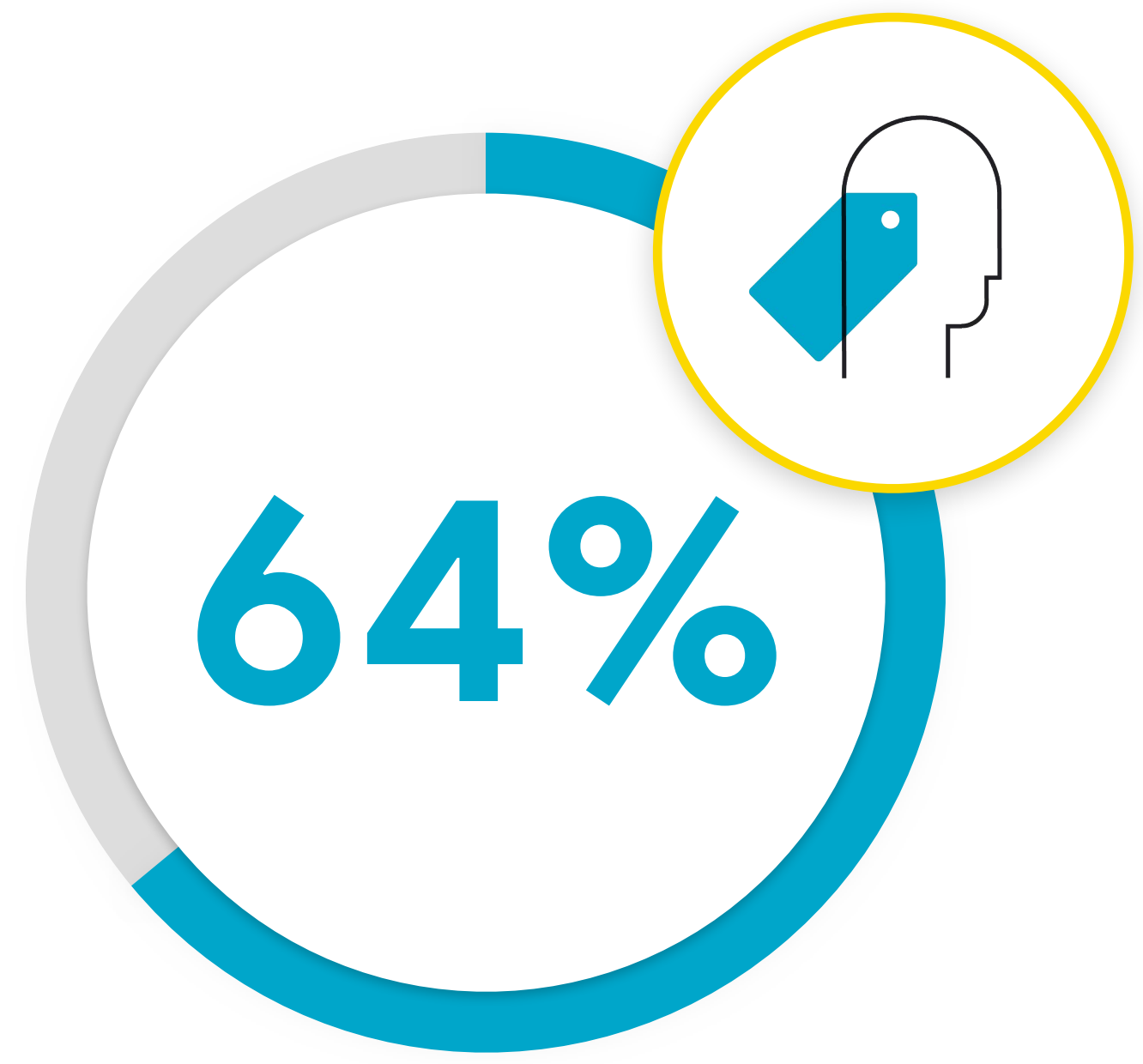


Trust leads other “traditional” parameters that are considered to drive value perception with customers

Ranking of most important parameters



Brand Salience plays an important role

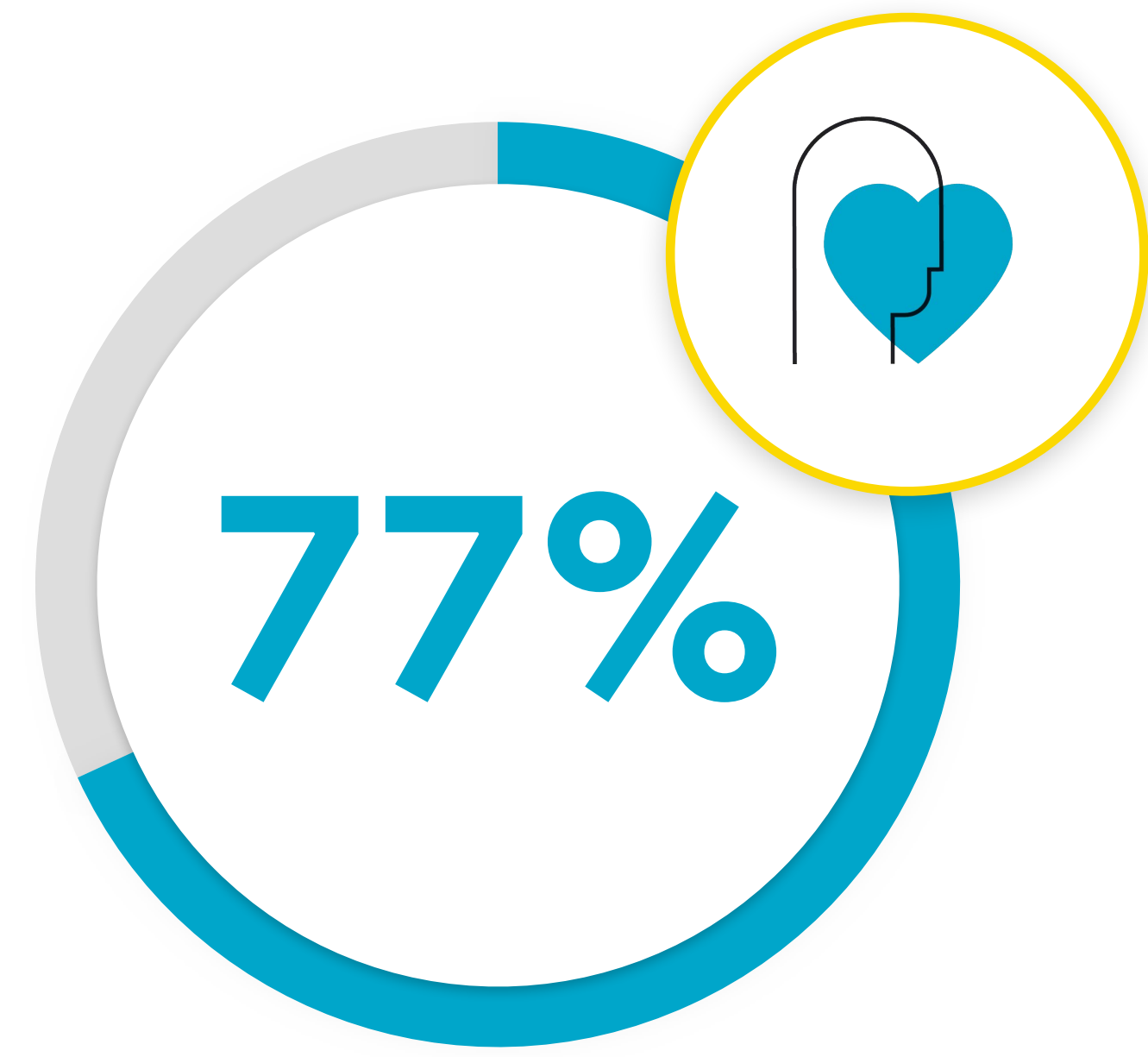
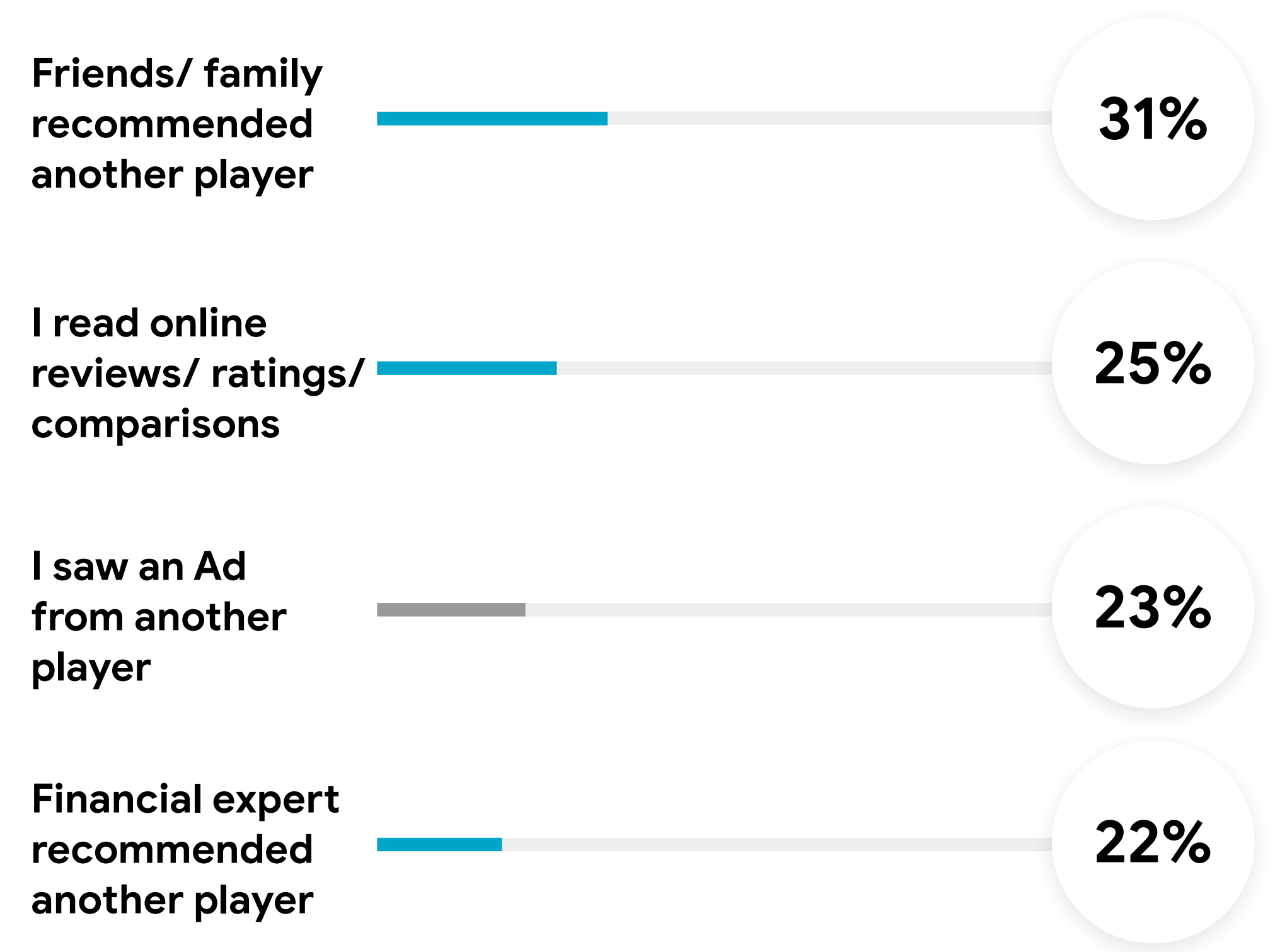


Credit buyers said brand was a major factor in choosing their loan provider



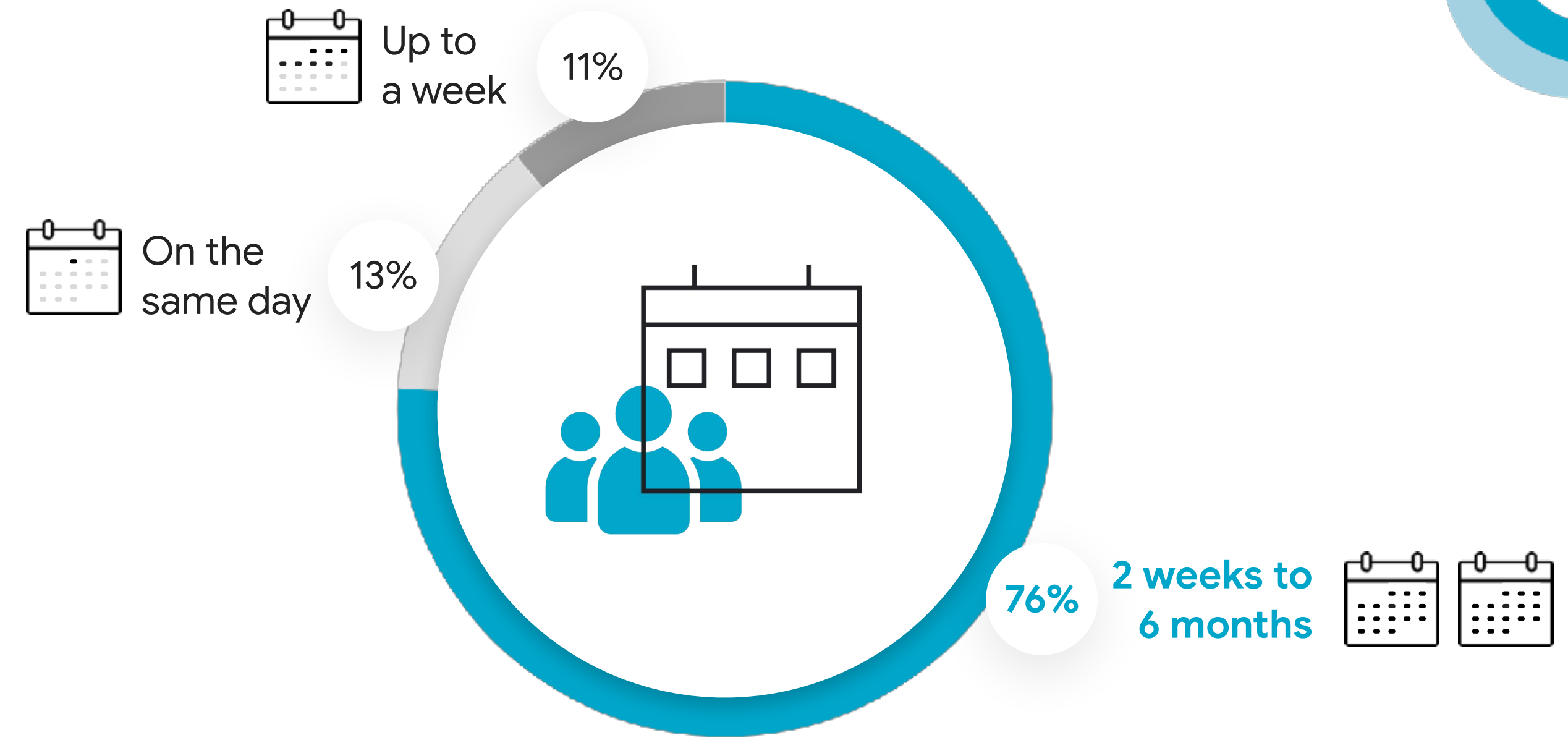
Brand Salience plays an important role

Reasons for switching brands



of consumers being influenced by recommendations

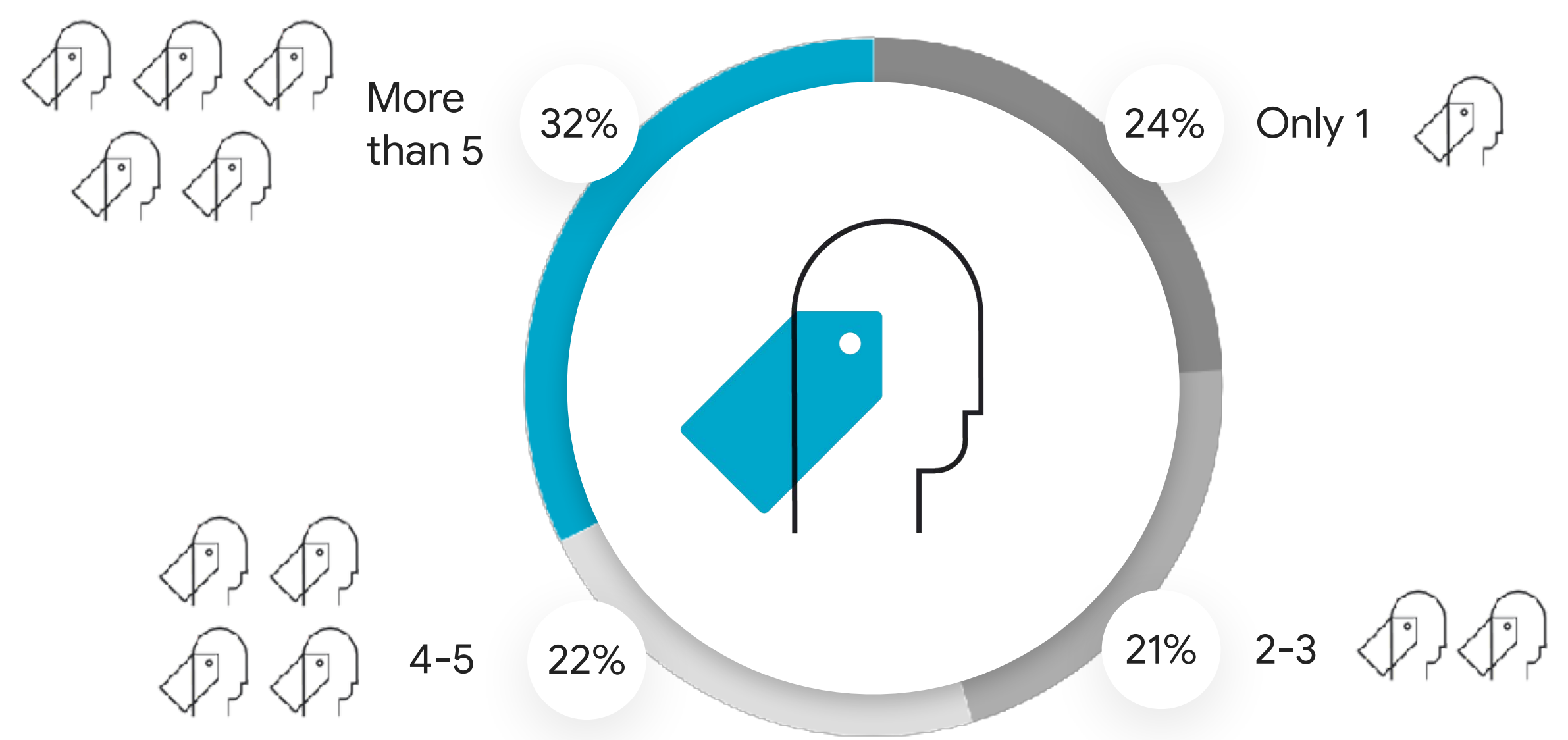
Considerable **time and research** effort is put into choosing



76% buyers take a min of 2 weeks to over 6 months



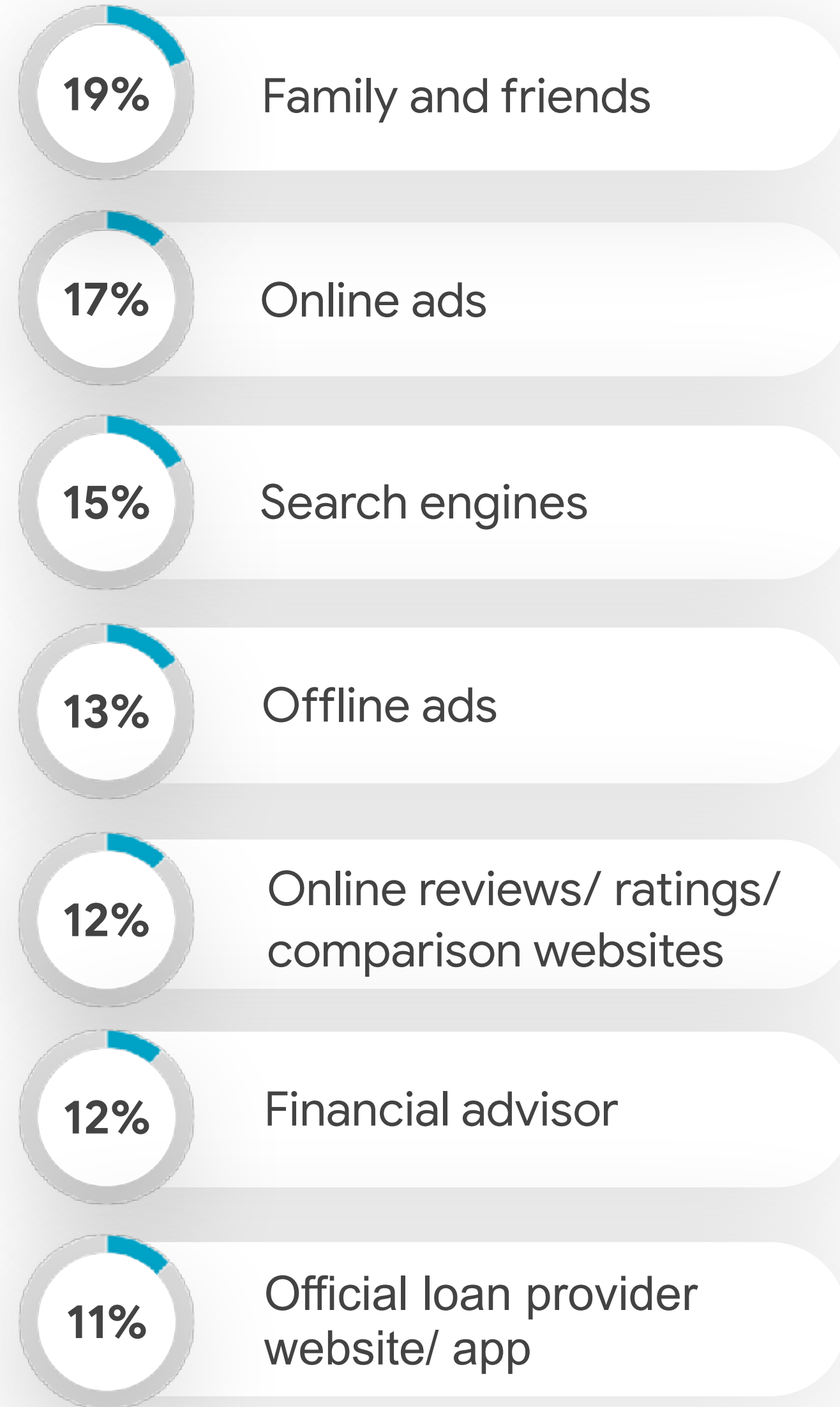
Considerable time and research effort is put into choosing



Average number of brands considered: 3.3



Online research is the dominant discovery enabler for credit products



of buyers use an online tool/ recommendation

Consumers use **Google** search engine as a...



**Connecting gateway
to brand**



**Product recommendation
platform**



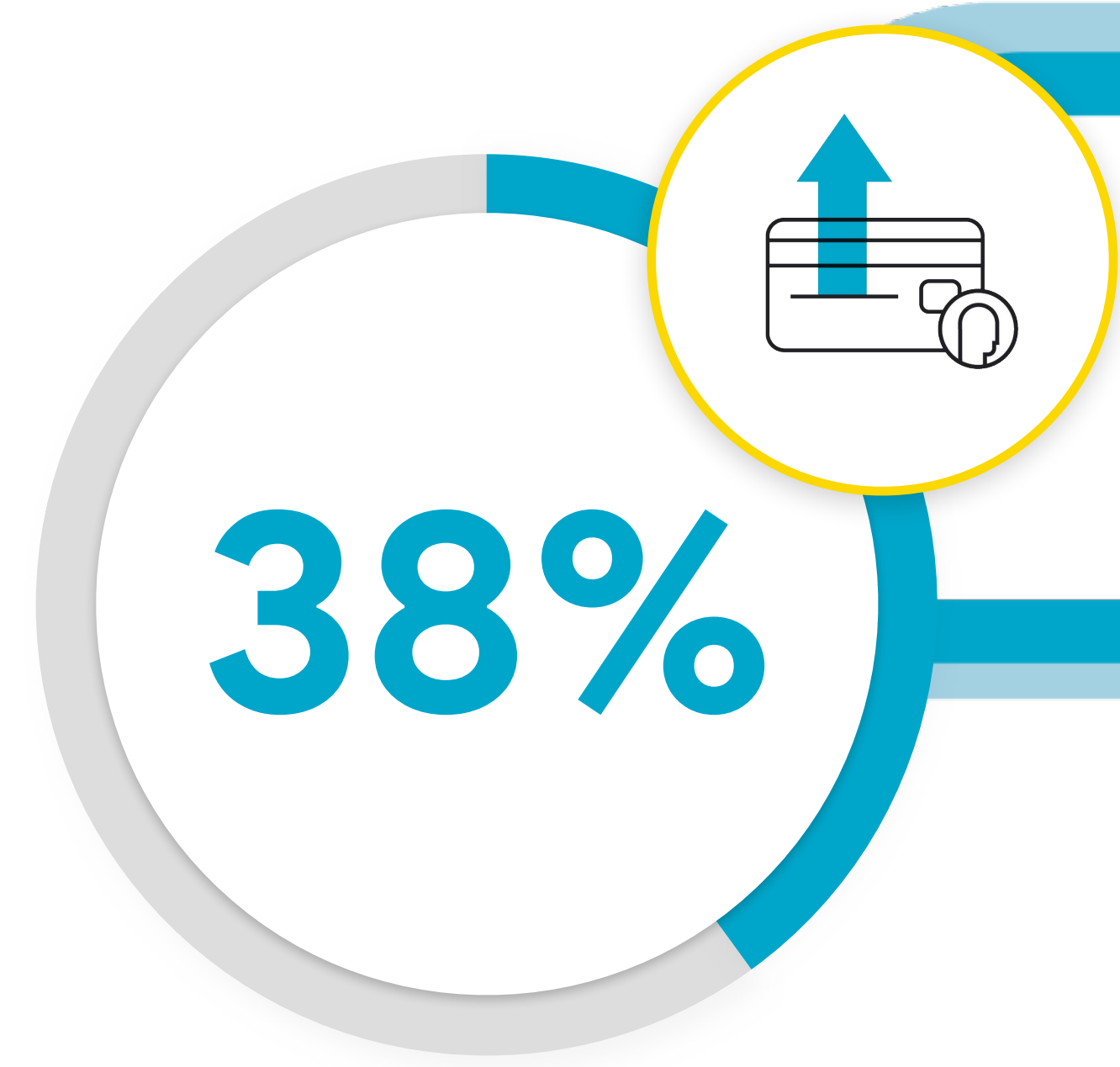
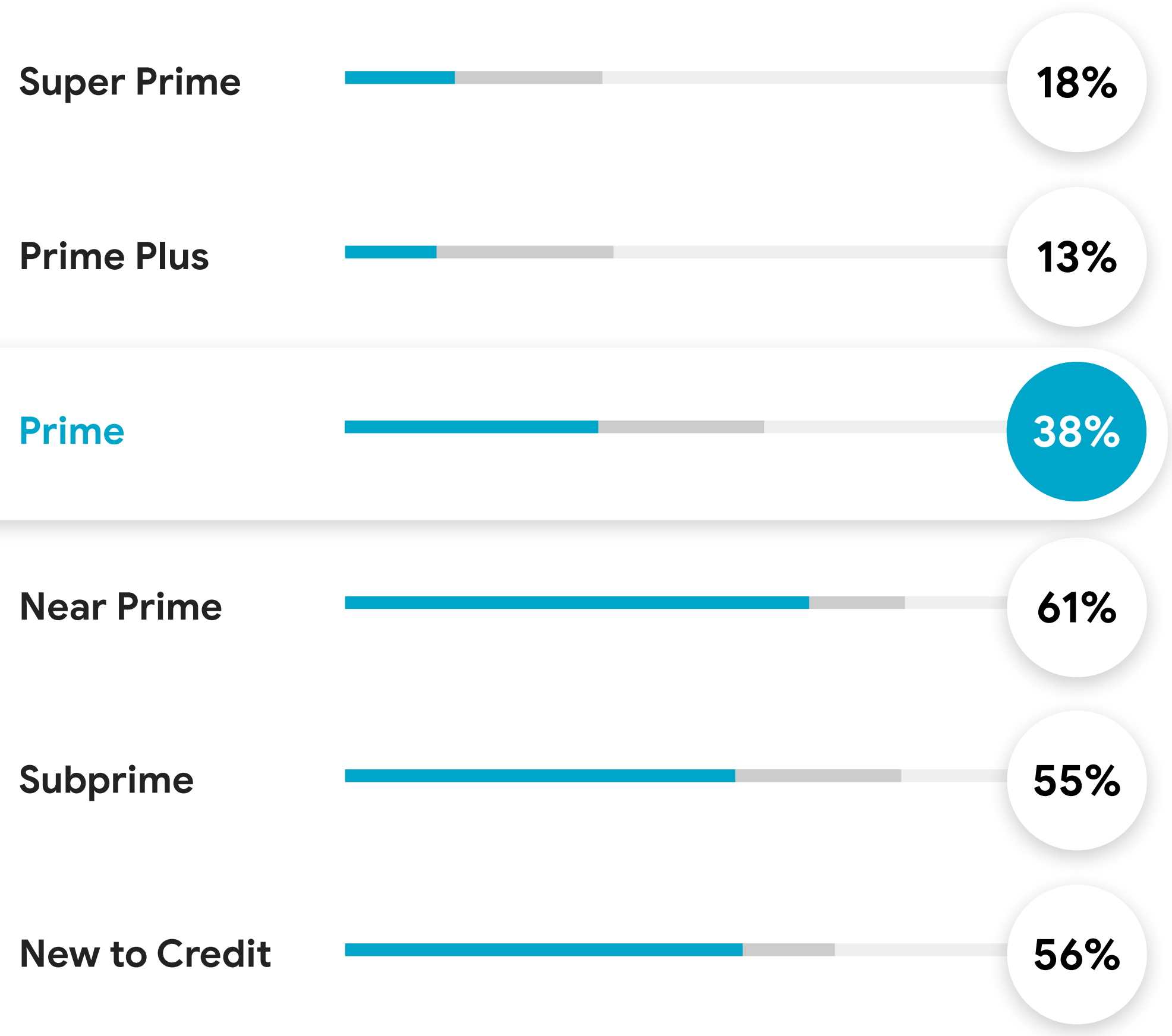
```
action_generate.php  game.php  chess.js
1 var g_player;
2 var move_number;
3
4 soundManager.onload = function(){
5 }
6
7 function init(gam_id, player){
8   soundManager.debugMode = false;
9   window.setTimeout("onTimer('gam_id','player')", 3000);
10 }
11
12 function initBoard(gam_id, num_moves, player, color){
13   init(gam_id, player);
14   for (i=0; i<8; i++){
15     for (j=0; j<8; j++){
16       var piece = $( "piece_" + i + "_" + j );
17       if (color == "black" && piece.alt.toLowerCase() == "white" ||
18           color == "white" && piece.alt.toLowerCase() == "black") {
19         piece.remove();
20       }
21     }
22   }
23   for (i=0; i<8; i++){
24     for (j=0; j<8; j++){
25       var square_id = "square_" + i + "_" + j;
26       $( "square_" + i + "_" + j ).html("<div class='piece' id='piece_" + i + "_" + j + "'></div>");
27     }
28   }
29 }
30
```

**Tech is the future
of lending**

Digital first 'FinTech' NBFCs have made rapid strides in market shares across credit tiers



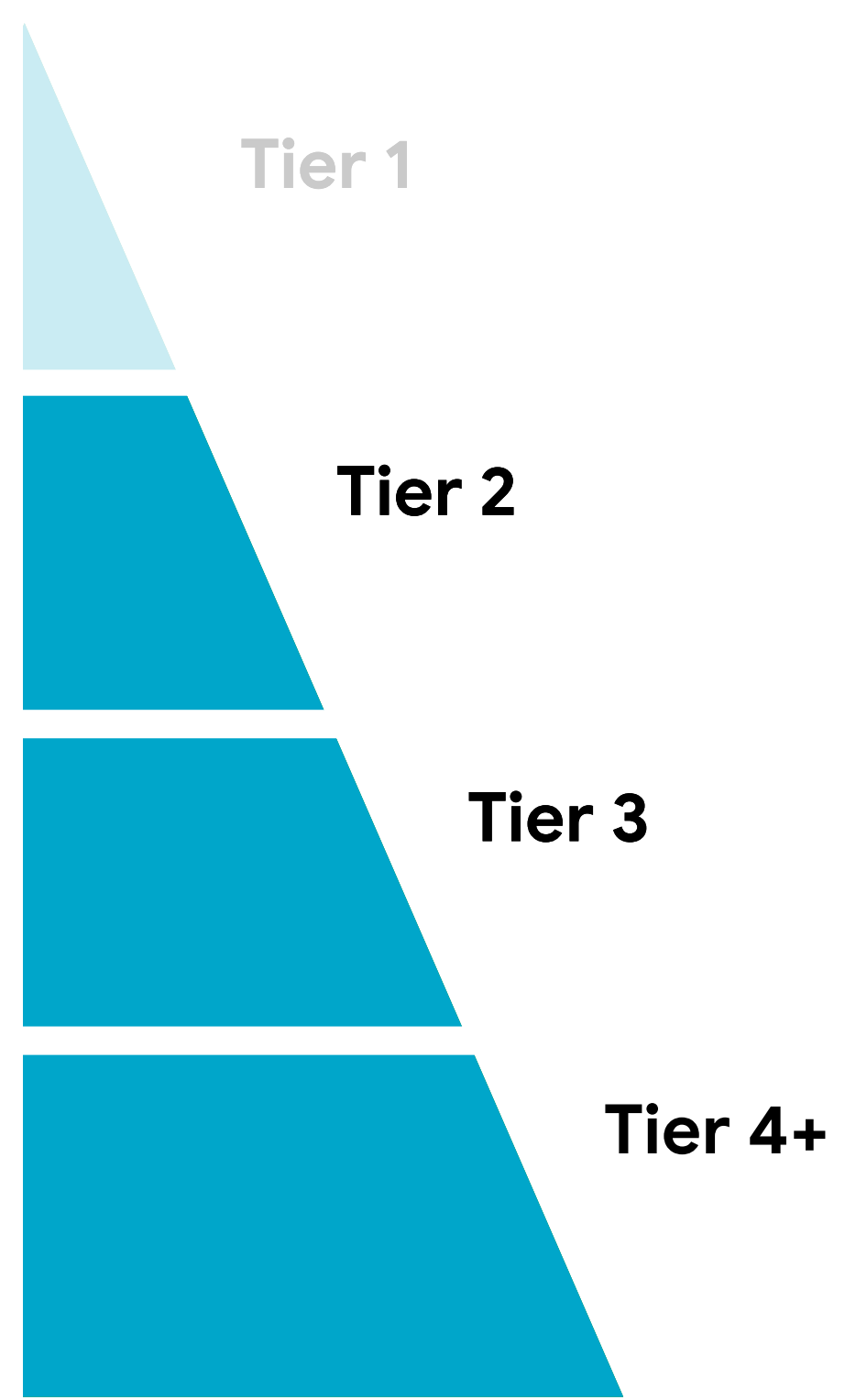
Digital first 'FinTech' NBFCs have made rapid strides in market shares across credit tiers



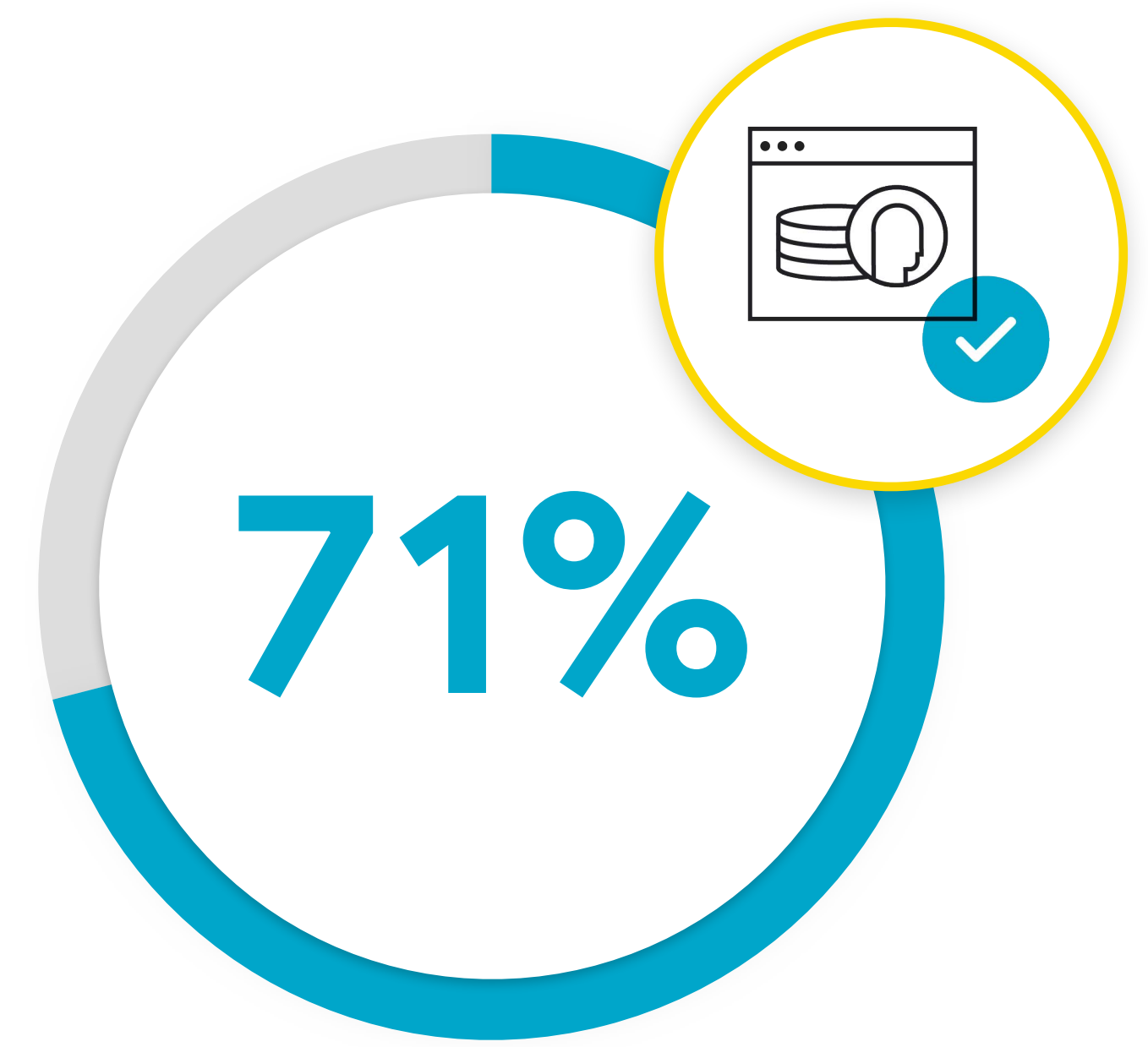
of Prime Tier is also FinTech NFBC-first, challenging banks' entry point

FinTechs NBFCs Banks

With their audiences now cutting across **consumer segments**

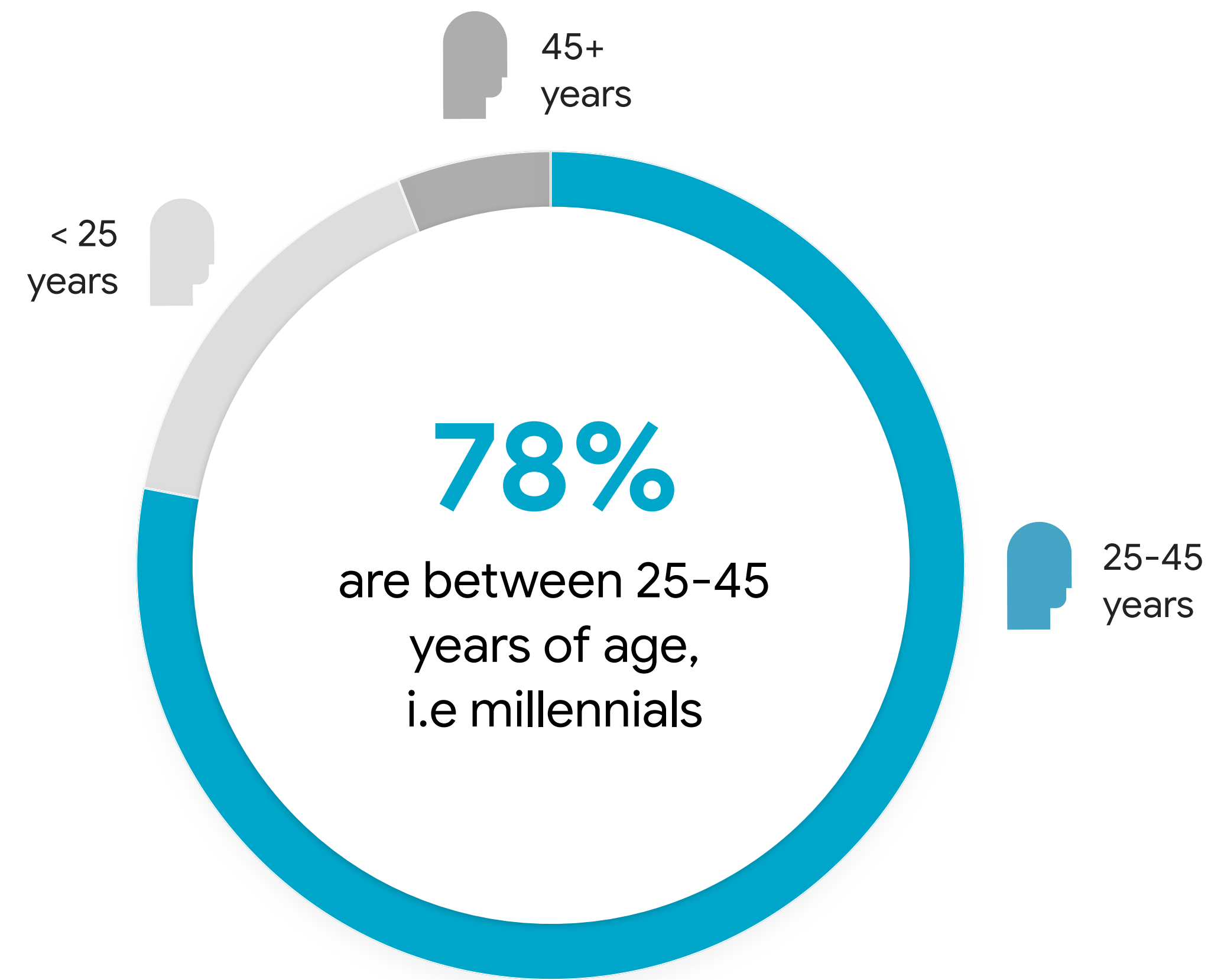


of searches for FinTech Personal Loans happen outside Tier 1 cities¹



of FinTech Personal Loan originations happen outside Tier 1 cities²

With their audiences now cutting across **consumer segments**



Four opportunities being key to determining the first among equals



Re-imagined customer experience

- Vernacular-Visual-Video Assisted
- Seamless multilingual experience across touchpoints
- Personalisation at scale



Treating data as a currency

- Customer lifetime value and propensity modelling
- Leverage data for credit and risk modelling
- Data-backed surrogate lending programs



Operational transformation 2.0

- Everything as an API
- Smart AI/ ML-led operations for originations, underwriting and servicing



Elastic core & infrastructure

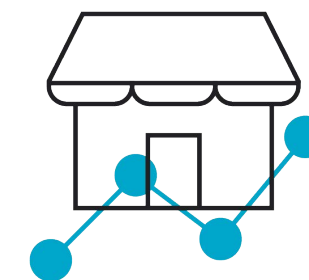
- Cloud-first technology strategy to address resilience and scale
- Build/ deploy cloud native digital services



Digital - fuelling
the economy



Report findings



Business implications

**“Small”
is big**

Small loans today could be big opportunity tomorrow.

Technology enablement + Expanded audiences are key to way forward

- Plan end-to-end digital journeys - from research phase to transaction conclusion to KYC with no physical intervention
- Identify and acquire customers who will be profitable in long term (customer lifetime value approach)
- Build capabilities to target basis propensity to convert

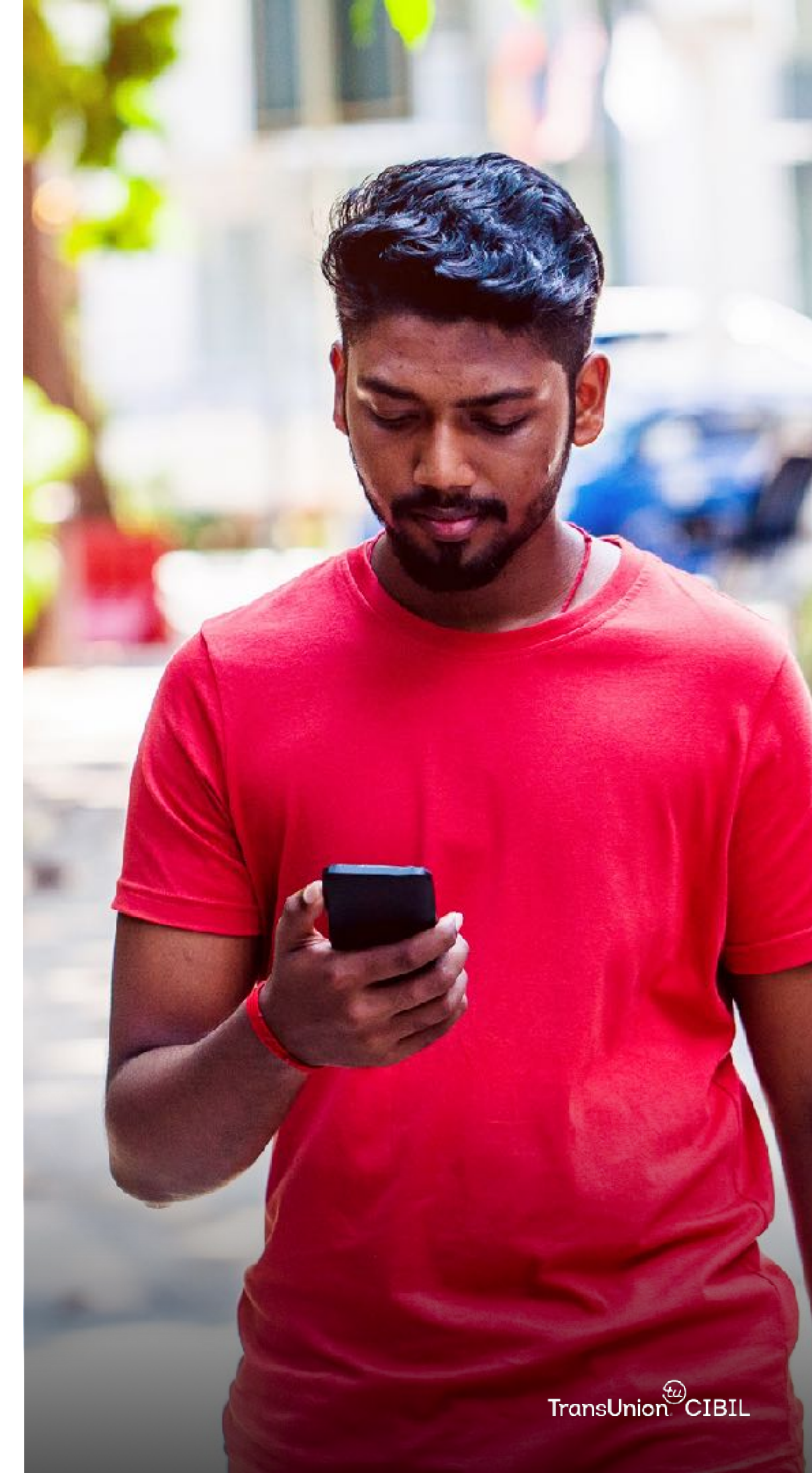


Beyond urban India

“If you talk to a man in a language he understands, that goes to his head. If you talk to him in his language, that goes to his heart”

- Nelson Mandela

- Invest in understanding & responding to the latest trends. Think tiered geo strategy instead of only metro for product acquisition
- Adopt an end-to-end local language approach starting from creatives to educating user to landing page and finally call centre handling



One size does not fit all

No two customers are the same, neither is context.

With data comes complexity, let Machine Learning do the heavy lifting for you

- Behind each click/impression are hundreds of variables unique to that context. We are long past the point where human capability could handle this
- Think personalisation and think at scale - of communication, of experience, service delivery and product offerings



Reiterate trust

Money is emotions and financial decisions can be complex, trust helps take the next step

- Communication helps builds trust, communication that is transparent and consistent. Personalise, choose the right context and do it at scale
- Be accessible to the customer, avoid surprises and resolve his problems across touchpoints - Physical, Digital or Voice



Tech is the future of lending

The 'best' services get delivered real time with the customer at the front and center.

- Build an end-to-end digital lending lifecycle, supporting assisted and unassisted journeys
- Machine Learning substantially enhances human decision making in assessing credit risk and revenue-cost management
- Adopt an API-first approach leveraging the India stack to scale the lending business



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